



REDEVELOPMENT AGENCY
STAFF REPORT
MEETING DATE: October 23, 2002

SEPTEMBER 2002 FINANCE & INVESTMENT REPORT

RECOMMENDED ACTION:

Accept and File Report

EXECUTIVE SUMMARY: Attached is the monthly Finance and Investment Report of the Redevelopment Agency of the City of Morgan Hill for the month of September 2002. The report covers activity for the first three months of the 2002/2003 fiscal year. A summary of the report is included on the first page for the Board's benefit.

The Redevelopment Agency monthly Finance and Investment Report is presented to the Agency Board and our Citizens as part of our ongoing commitment to improve and maintain public trust through communication of our finances, budget and investments. The report also serves to provide the information necessary to determine the adequacy/stability of financial projections and develop equitable resource/revenue allocation procedures.

This report covers all fiscal activity of the Redevelopment Agency.

FISCAL IMPACT: As presented.

Agenda Item # 1

Prepared By:

Finance Director

Submitted By:

Executive Director



**REDEVELOPMENT AGENCY OF THE CITY OF MORGAN HILL,
CALIFORNIA**

FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2002/03

This analysis of the Redevelopment Agency's Financial status reflects 25% of the fiscal year. However, this analysis is somewhat limited. Normally, very little property tax increment revenue has been received as of this time of the year.

Revenues

Through September, the Redevelopment Agency received \$260,669 in property tax increment revenues; this is expected. Most property taxes are received in December and April. The Redevelopment Agency, as of September 30, 2002, has collected \$100,000,000 in tax increment revenue under the original plan and \$39,632,410 toward the plan amendment cap of \$147,000,000. Since the \$100 million tax increment cap for the original plan was reached during 1999/2000, all tax increment revenues collected during 2002/2003 will be collected under the plan amendment.

Similarly, little interest was received through September because most interest earnings are not posted until October for the quarter ended September 30. 'Other Revenues' represent reimbursements and charges for current services and total \$3,970.

Expenditures

Total Redevelopment Agency Capital Projects expenditures and encumbrances equal \$13,565,195 and are 44% of budget. Of this total, \$5,887,332 represents encumbrances for capital projects and other commitments. Expenditures for administrative costs for employee services, supplies, and contract services were 14% of budget. During July, the Agency made a \$2.55 million installment payment towards the purchase of the Sports complex. During September, the Agency spent \$452,977 on property acquisitions related to the Indoor Recreation Center and Butterfield Blvd. Phase IV projects. All Capital Projects expenditures during 2002/03 have used monies collected under the plan amendment.

Budgeted expenditures plus encumbrances for Housing are at 17% of the budget for a total of \$1,075,942. Although certain loans and grants for various housing loan and grant programs have been committed, the related funds have not yet been drawn down by the recipients and, hence, are not reflected in the expenditures. All of the 2002/03 housing related expenditures has been funded with tax increment collected under the plan amendment.

Fund Balance

The unreserved fund balance of \$6,725,264 for the Capital Projects Fund at September 30, 2002, consisted entirely of monies collected under the plan amendment. The unreserved fund balance of \$6,725,264 at August 31 included future obligations to pay \$7 million for the courthouse facility, an additional \$3,250,000 for purchase of the Gundersen property, an additional \$2.55 million for



**REDEVELOPMENT AGENCY OF THE CITY OF MORGAN HILL,
CALIFORNIA**

FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2002/03

a sports complex, and \$1.61 million for the Lomanto property should the Agency agree to execute its option to purchase in accordance with the agreement. If all of these future commitments are subtracted from the \$6,725,264, the remaining negative unreserved fund balance at September 30 would be a negative (\$7,684,736). However, these commitments are expected to be paid out over the next 2 to 4 years and to reduce current resources by only an estimated \$3 million in 2002/03.

The unreserved fund balance of \$2,520,026 for the Housing Fund at September 30 consisted of funds all collected under the plan amendment.



CITY COUNCIL STAFF REPORT

MEETING DATE: October 23, 2002

Agenda Item # 2

Prepared By:

**Council Services &
Records Manager**

Submitted By:

City Manager

PROCLAMATION FOR WORLD POPULATION AWARENESS WEEK

RECOMMENDED ACTION:

Approve Proclamation Proclaiming the week of October 21-27, 2002 as *World Population Awareness Week*

EXECUTIVE SUMMARY:

A request has been made by Charles F. Tooley, Chairman of the U.S. Committee of Mayors on Resource Conservation and Population requesting that the City of Morgan Hill proclaim the week of October 20-27 as ***World Population Awareness Week***. The letter from Mr. Tooley is attached as well as the proclamation that helps facilitate this action.

FISCAL IMPACT: Preparation of the staff report is accommodated in the Council Services and Records Management budget.



CITY COUNCIL STAFF REPORT

MEETING DATE: October 23, 2002

SUPPORT FOR PROPOSITION 46

RECOMMENDED ACTION(S):

Officially Support Proposition 46

EXECUTIVE SUMMARY: Proposition 46, the Housing and Emergency Shelter Trust Fund Act of 2002 is on the upcoming November 5 statewide ballot. If approved, this proposition will provide \$2.1 billion for housing development. Given the fact that approximately 220,000 housing units need to be produced in California each year to meet demand - yet only four times in the last 20 years has the production target been reached, the Legislative Subcommittee recommends that the City officially support Proposition 46.

The text of the proposed act is attached.

FISCAL IMPACT: No budget adjustment is requested at this time.

Agenda Item # 3

Prepared By:

**Assistant to the City
Manager**

Submitted By:

City Manager

TEXT OF PROPOSED PROPOSITION 46

This law proposed by Senate Bill 1227 of the 2001–2002 Regular Session (Chapter 26, Statutes of 2002) is submitted to the people in accordance with the provisions of Article XVI of the California Constitution.

This proposed law adds sections to the Health and Safety Code; therefore, new provisions proposed to be added are printed in italic type to indicate that they are new.

PROPOSED LAW

SEC. 8. Part 11 (commencing with Section 53500) is added to Division 31 of the Health and Safety Code, to read:

PART 11. HOUSING AND EMERGENCY SHELTER TRUST FUND ACT OF 2002

CHAPTER 1. GENERAL PROVISIONS

53500. This part shall be known and may be cited as the Housing and Emergency Shelter Trust Fund Act of 2002.

53501. As used in this part, the following terms have the following meanings:

- (a) “Committee” means the Housing Finance Committee created pursuant Section 53524.
- (b) “Fund” means the Housing and Emergency Shelter Trust Fund created pursuant to Section 53520.

CHAPTER 2. HOUSING AND EMERGENCY SHELTER TRUST FUND

53520. The proceeds of bonds issued and sold pursuant to this part shall be deposited in the Housing and Emergency Shelter Trust Fund, which is hereby created. Money in the fund shall be allocated and utilized in accordance with Chapter 4 (commencing with Section 53533).

CHAPTER 3. FISCAL PROVISIONS

53521. Bonds in the total amount of two billion one hundred million dollars (\$2,100,000,000) exclusive of refunding bonds, or so much thereof as is determined necessary and feasible by the committee in order to effectuate this part or to conduct an effective sale, may be issued and sold to provide a fund to be used for carrying out the purposes expressed in this part and to be used to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code. The bonds shall, when sold, be and constitute a valid legally and binding obligation of the state, and the full faith and credit of the state is hereby pledged for the punctual payment of both principal of, and interest on, the bonds as the principal and interest become due and payable.

53522. Any bonds issued and sold pursuant to this part may be refunded by the issuance of refunding bonds in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 4 of Title 2 of the Government Code. Approval by the electors of the state for the issuance of bonds described in this chapter shall include the approval of the issuance of any bonds issued to refund any bonds originally issued or any previously issued refunding bonds.

53523. (a) The bonds authorized by this part shall be prepared, executed, issued, sold, paid, and redeemed as provided in the State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code) and all of the other provisions of that law apply to the bonds and to this part and are hereby incorporated in this part as though set forth in full in this part.

(b) Pursuant to the State General Obligation Bond Law, the cost of bond issuance shall be paid out of the bond proceeds. These costs shall be shared proportionally by each program funded through this chapter.

53524. (a) Solely for the purpose of authorizing the issuance and sale, pursuant to the State General Obligation Bond Law, of the bonds authorized by this part, the Housing Finance Committee is hereby created. For purposes of this part, the Housing Finance Committee is “the committee” as that term is used in the State General Obligation Bond Law. The committee consists of the Controller, the Treasurer, the Director of Finance, the Secretary of the Business, Transportation and Housing Agency, the Director of Housing and Community Development, and the Executive Director of the California Housing Finance Agency, or their designated representatives. The Treasurer shall serve as the chairperson of the committee. A majority of the committee may act for the committee.

(b) For purposes of the State General Obligation Bond Law, the department is designated the “board” for programs administered by the department, and the agency is the “board” for programs administered by the agency.

53525. Upon request of the board stating that funds are needed for the purposes of this chapter, the committee shall determine whether or not it is necessary or desirable to issue bonds authorized pursuant to this part in order to carry out the actions specified in Chapter 4 (commencing with Section 53533) and, if so, the amount of bonds to be issued and sold. Successive issues of bonds may be authorized and sold to carry out those actions progressively, and it is not necessary that all of the bonds authorized to be issued be sold at any one time.

53526. There shall be collected each year and in the same manner and at the same time as other state revenue is collected, in addition to the ordinary revenues of the state, a sum in an amount required to pay the principal of, and interest on, the bonds each year, and it is the duty of all officers charged by law with any duty in regard to the collection of the revenue to do and perform each and every act that is necessary to collect that additional sum.

53527. Notwithstanding Section 13340 of the Government Code, there is hereby appropriated from the General Fund, for the purposes of this part, an amount that will equal the total of the following:

(a) The sum annually necessary to pay the principal of, and interest on, bonds issued and sold pursuant to this part, as the principal and interest become due and payable.

(b) The sum necessary to carry out the provisions of Section 53528, appropriated without regard to fiscal years.

53528. For the purposes of carrying out this part, the Director of Finance may authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of the unsold bonds that have been authorized by the committee to be sold for the purpose of carrying out this part. Any amounts withdrawn shall be deposited in the fund. Any money made available under this section shall be returned to the General Fund from money received from the sale of bonds for the purpose of carrying out this part.

53529. Notwithstanding any other provision of this part, or of the State General Obligation Bond Law, if the Treasurer sells bonds pursuant to this part that include a bond counsel opinion to the effect that the interest on the bonds is excluded from gross income for federal tax purposes under designated conditions, the Treasurer may maintain separate accounts for the bond proceeds invested and the investment earnings on those proceeds, and may use or direct the use of those proceeds or earnings to pay any rebate, penalty, or other payment required under federal law, or take any other action with respect to the investment and use of those bond proceeds, as may be required or desirable under federal law in order to maintain the tax exempt status of those bonds and to obtain any other advantage under federal law on behalf of the funds of this state.

53530. The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for the purposes of carrying out this part. The amount of the request shall not exceed the amount of unsold bonds that the committee has by resolution authorized to be sold for the purpose of carrying out this part. The board shall execute any documents that are required by the Pooled Money Investment Board to obtain and repay the loan. Any amounts loaned shall be deposited in the fund to be allocated by the board in accordance with this part.

53531. All money deposited in the fund that is derived from premiums and accrued interest on bonds sold shall be reserved in the fund and shall be available for transfer to the General Fund as a credit to expenditures for bond interest.

53532. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this part are not “proceeds of taxes” as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is not subject to the limitations imposed by that article.

CHAPTER 4. ALLOCATION OF HOUSING BOND REVENUES

53533. (a) Money deposited in the fund from the sale of bonds pursuant to this part shall be allocated for expenditure in accordance with the following schedule:

(1) Nine hundred ten million dollars (\$910,000,000) shall be transferred to the Housing Rehabilitation Loan Fund to be expended for the Multifamily Housing Program authorized by Chapter 6.7 (commencing with Section 50675) of Part 2, except for the following:

(A) Fifty million dollars (\$50,000,000) shall be transferred to the Preservation Opportunity Fund and, notwithstanding Section 13340 of the Government Code, is continuously appropriated without regard to fiscal years for the preservation of at-risk housing pursuant to enabling legislation.

(B) Twenty million dollars (\$20,000,000) shall be used for nonresidential space for supportive

services, including, but not limited to, job training, health services, and child care within, or immediately proximate to, projects to be funded under the Multifamily Housing Program. This funding shall be in addition to any applicable per-unit or project loan limits and may be in the form of a grant. Service providers shall ensure that services are available to project residents on a priority basis over the general public.

(C) Twenty-five million dollars (\$25,000,000) shall be used for matching grants to local housing trust funds pursuant to enabling legislation.

(D) Fifteen million dollars (\$15,000,000) shall be used for student housing through the Multifamily Housing Program, subject to the following provisions:

(i) The department shall give first priority for projects on land owned by a University of California or California State University campus. Second priority shall be given to projects located within one mile of a University of California or California State University campus that is suffering from a severe shortage of housing and limited availability of developable land as determined by the department. Those determinations shall be set forth in the Notice of Funding Availability and shall not be subject to the requirements of Chapter 3.5 (commencing with Section 11340) of Part 1 of Title 2 of the Government Code.

(ii) All funds shall be matched on a one-to-one basis from private sources or by the University of California or California State University. For the purposes of this subparagraph, "University of California" includes the Hastings College of the Law.

(iii) Occupancy for the units shall be restricted to students enrolled on a full-time basis in the University of California or California State University.

(iv) Income eligibility pursuant to the Multifamily Housing Program shall be established by verification of the combined income of the student and his or her family.

(v) Any funds not used for this purpose within 24 months of the date that the funds are made available shall be awarded pursuant to subdivision (a) for the Downtown Rebound Program as set forth in paragraph (1) of subdivision (c) of Section 50898.2.

(E) Any funds not encumbered for the purposes set forth in this paragraph, except subparagraph (D), within 30 months of availability shall revert to the Housing Rehabilitation Loan Fund created by Section 50661 for general use in the Multifamily Housing Program.

(F) If the enabling legislation for any program specified in this paragraph fails to be enacted into law in the 2001–02 Regular Session of the Legislature, the specified allocation for that program shall be void and the funds shall revert for general use in the Multifamily Housing Program.

(2) One hundred ninety-five million dollars (\$195,000,000) shall be transferred to the Emergency Housing and Assistance Fund to be expended for the Emergency Housing and Assistance Program authorized by Chapter 11.5 (commencing with Section 50800) of Part 2.

(3) One hundred ninety-five million dollars (\$195,000,000) shall be transferred to the Housing Rehabilitation Loan Fund to be expended for the Multifamily Housing Program authorized by Chapter 6.7 (commencing with Section 50675) of Part 2, to be used for supportive housing projects for individuals and households moving from emergency shelters or transitional housing or those at risk of homelessness. The criteria for selecting projects should give priority to supportive housing for people with disabilities who would otherwise be at high risk of homelessness where the applications represent collaboration with programs that meet the needs of the person's disabilities. The department may provide for higher per-unit loan limits as reasonably necessary to provide and maintain rents affordable to those individuals and households. For purposes of this paragraph, "supportive housing" means housing with no limit on length of stay, that is occupied by the target population, as defined in subdivision (d) of Section 53260, and that is linked to onsite or offsite services that assist the tenant to retain the housing, improve his or her health status, maximize his or her ability to live, and, when possible, work in the community.

(4) Two hundred million dollars (\$200,000,000) shall be transferred to the Joe Serna, Jr. Farmworker Housing Grant Fund to be expended for farmworker housing programs authorized by Chapter 3.2 (commencing with Section 50517.5) of Part 2, except for the following:

(A) Twenty-five million dollars (\$25,000,000) shall be used for projects that serve migratory agricultural workers as defined in subdivision (i) of Section 7602 of Title 25 of the California Code of Regulations.

(B) Twenty million dollars (\$20,000,000) shall be used for developments that also provide health services to the residents. Recipients of these funds shall be required to provide ongoing monitoring of funded developments to ensure compliance with the requirements of the Joe Serna, Jr. Farmworker Housing Grant Program. Projects receiving funds through this allocation shall be ineligible for funding through the Joe Serna, Jr. Farmworker Housing Grant Program.

(C) Any funds not encumbered for the purposes set forth in this paragraph within 30 months of availability shall revert for general use in the Joe Serna, Jr. Farmworker Housing Grant Program.

(5) Two hundred five million dollars (\$205,000,000) shall be transferred to the Self-Help Housing Fund. Notwithstanding Section 13340 of the Government Code and Section 50697.1, these funds are hereby continuously appropriated without regard to fiscal years to the department to be expended for the purposes of the CalHome Program authorized by Chapter 6 (commencing with Section 50650) of Part 2, except for the following:

(A) Seventy-five million dollars (\$75,000,000) shall be transferred to the Building Equity and Growth in Neighborhoods Fund to be used for the Building Equity and Growth in Neighborhoods (BEGIN) Program pursuant to enabling legislation.

(B) Five million dollars (\$5,000,000) shall be used to provide grants to cities, counties, cities and counties, and nonprofit organizations to provide grants for lower income tenants with disabilities for the purpose of making exterior modifications to rental housing in order to make that housing accessible to persons with disabilities. For the purposes of this subparagraph, "exterior modifications" includes modifications that are made to entryways or to common areas of the structure or property. The program provided for under this subparagraph shall not be subject to the requirements of Chapter 3.5 (commencing with Section 11340) of Part 1 of Title 2 of the Government Code.

(C) Ten million dollars (\$10,000,000) shall be expended for construction management under the California Self-Help Housing Program pursuant to subdivision (b) of Section 50696.

(D) Any funds not encumbered for the purposes set forth in this paragraph within 30 months of availability shall revert for general use in the CalHome Program.

(E) If the enabling legislation for any program specified in this paragraph fails to be enacted into law in the 2001–02 Regular Session of the Legislature, the specified allocation for that program shall be void and the funds shall revert for general use in the CalHome Program.

(6) Five million dollars (\$5,000,000) shall be transferred to the Housing Rehabilitation Loan Fund to be expended for capital expenditures in support of local code enforcement and compliance programs. This allocation shall not be subject to the requirements of Chapter 3.5 (commencing with Section 11340) of Part 1 of Title 2 of the Government Code. If the moneys allocated pursuant to this paragraph are not expended within three years after being transferred, the department may, in its discretion, transfer the moneys to the Housing Rehabilitation Loan Fund to be expended for the Multifamily Housing Program.

(7) Two hundred ninety million dollars (\$290,000,000) shall be transferred to the Self-Help Housing Fund. Notwithstanding Section 50697.1, these funds are hereby continuously appropriated to the agency to be expended for the purposes of the California Homebuyer's Downpayment Assistance Program authorized by Chapter 11 (commencing with Section 51500) of Part 3, except for the following:

(A) Fifty million dollars (\$50,000,000) shall be transferred to the School Facilities Fee Assistance Fund as provided by subdivision (a) of Section 51453 to be used for the Homebuyer Down Payment Assistance Program of 2002 established by Section 51451.5.

(B) Eighty-five million dollars (\$85,000,000) shall be transferred to the California Housing Loan Insurance Fund to be used for purposes of Part 4 (commencing with Section 51600).

(C) Twelve million five hundred thousand dollars (\$12,500,000) shall be reserved for downpayment assistance to low-income first-time homebuyers who, as documented to the agency by a nonprofit organization certified and funded to provide homeownership counseling by a federally funded national nonprofit corporation, is purchasing a residence in a community revitalization area targeted by the nonprofit organization and who has received homeownership counseling from the nonprofit organization.

(D) Twenty-five million dollars (\$25,000,000) shall be used for downpayment assistance pursuant to Section 51505. After 18 months of availability, if the agency determines that the funds set aside pursuant to this section will not be utilized for purposes of Section 51505, these funds shall be available for the general use of the agency for the purposes of the California Homebuyer's Down Payment Assistance Program, but may also continue to be available for the purposes of Section 51505.

(E) Funds not utilized for the purposes set forth in subparagraphs (B) and (C) within 30 months shall revert for general use in the California Homebuyer's Down Payment Assistance Program.

(8) One hundred million dollars (\$100,000,000) shall be transferred to the Jobs Housing Improvement Account to be expended as capital grants to local governments for increasing housing pursuant to enabling legislation. If the enabling legislation fails to become law in the 2001–02 Regular Session of the Legislature, the specified allocation for this program shall be void and the funds shall revert for general use in the Multifamily Housing Program as specified in paragraph (1) of subdivision (a).

(b) No portion of the money allocated pursuant to this section may be expended for project operating costs, except that this section does not preclude expenditures for operating costs from reserves required to be maintained by or on behalf of the project sponsor.

(c) The Legislature may, from time to time, amend the provisions of law related to programs to which funds are, or have been, allocated pursuant to this section for the purpose of improving the efficiency and effectiveness of the program, or for the purpose of furthering the goals of the program.

(d) The Bureau of State Audits shall conduct periodic audits to ensure that bond proceeds are

awarded in a timely fashion and in a manner consistent with the requirements of this part, and that awardees of bond proceeds are using funds in compliance with applicable provisions of this part.



CITY COUNCIL STAFF REPORT

MEETING DATE: October 23, 2002

Agenda Item # 4

Prepared By:

**Assistant to the City
Manager**

Submitted By:

City Manager

OFFICE XP SOFTWARE PURCHASE

RECOMMENDED ACTION(S):

Authorize the City Manager to Issue A Purchase Order in the Amount of \$26,509.68 to Dell for Office XP Licenses

EXECUTIVE SUMMARY: The City is in the process of converting its basic computer software application from the Corel Wordperfect Suite to Microsoft's Office Suite. This conversion will ensure that City documents are in a format that is more compatible with the software used by our customers and vendors.

The purchase of licenses for Office is the major component of this transition. The IT Management Committee has analyzed the City's needs and determined that we need to purchase a total of 80 Standard, 7 Professional, and 6 Developer licenses.

The City has standardized on Dell in order to best facilitate the expedient and efficient repair of equipment and in order to obtain the best pricing. This purchase is being made off of the State's contract with Dell and is authorized by Section 3.04.150 (B) of the Municipal Code.

FISCAL IMPACT: Funds for this software purchase were appropriated in account 730-43845-2520 on page 282 of the adopted City budget.



CITY COUNCIL STAFF REPORT

MEETING DATE: October 23, 2002

Agenda Item # 5

Prepared By:

**Assistant to the City
Manager**

Submitted By:

City Manager

2003 RECYCLING REWARDS CALENDAR

RECOMMENDED ACTION(S):

1. Determine that repeating the formal bidding process would not be likely to result in a lower price or would cause unnecessary delay;
2. Authorize the City Manager to Issue A Purchase Order in the Amount of \$24,466 to Chase Printing for the 2003 Recycling Rewards Calendar

EXECUTIVE SUMMARY: Since the City's recycling and yard trimmings collection program is biweekly, it is necessary to distribute calendars to residents informing them about the recycling schedule applicable to their home. For the past three years, the City has distributed beautiful community wall calendars showcasing the artwork of local schoolchildren. City staff have heard from many residents who appreciated receiving the calendar.

Formal written printing bids for this year's calendar were solicited from local printers. The City received no responses as a result of the formal bidding process. However, after further encouragement, two local printers submitted bids. Chase Printing, the printer that did an excellent job on last year's calendar, submitted the lowest bid of \$24,466 for 12,000 calendars. This bid was over \$9,000 less than last year's total due to new specifications generated by staff for a slightly smaller calendar.

There is not enough time left to repeat the formal bidding process and still distribute the calendar in a timely manner. Given this, and the fact that Chase Printing was the winning bidder last year and submitted a substantially lower bid this year, staff recommends that the Council authorize the City Manager to issue a purchase order to Chase Printing in the amount of \$24,466. Section 3.04.150 (A) of the Municipal Code provides for this approval upon the determination that competitive bids would not be likely to result in a lower price to the City or would cause unnecessary delay under the circumstances.

FISCAL IMPACT: Funds for calendar printing were appropriated in account 232-42257-5800 on page 142 of the adopted City budget.



CITY COUNCIL STAFF REPORT

MEETING DATE: October 23, 2002

Agenda Item # 6

**Prepared and
Approved By:**

(Department Director)

Submitted By:

City Manager

ADOPTION OF REVISED CLASSIFICATION SPECIFICATION AND SALARY RANGE FOR HOUSING PROGRAM COORDINATOR POSITION.

RECOMMENDED ACTION(S):

Adopt the revised job description and salary range for the Housing Program Coordinator in BAHS.

EXECUTIVE SUMMARY:

Due to the gradual change in duties and responsibilities and the addition of new responsibilities over a period of time, the Director of Building Assistance & Housing Services requested that a desk audit of the Housing Program Coordinator position be conducted by HR to determine the appropriate classification specification and salary range for the position. A review and analysis of the position's duties, responsibilities and job requirements, a salary survey to compare with positions in other jurisdictions, and an internal comparison with other positions within the City was conducted.

It was determined that the scope of responsibilities has increased considerably, e.g., budget responsibilities, responsibility for Measure P (the Residential Development Control System), property acquisition, the Below Market Rate program, and interaction with the Planning Commission. In addition, the position now requires a four-year college degree which was not part of the original requirements for the position. The scope of position responsibilities and job requirements are now more closely aligned with those of the Housing Rehabilitation Coordinator and Business Assistant/Housing Analyst positions.

Six cities were found to have reasonably comparable job descriptions to that of Morgan Hill's Housing Program Coordinator. The cities are Campbell, Palo Alto, Concord, Livermore, Milpitas and Fremont. The salaries of those positions in other cities are comparable to Morgan Hill's Housing Rehabilitation Coordinator and Business Assistant/Housing Analyst positions, therefore, it is appropriate that the revised classification specification (attached) for the position of Housing Program Coordinator be set at the same salary range (attached) as those two positions.

FISCAL IMPACT:

None. The additional funds necessary for the reclassification of this position can be incorporated into the BAHS current year's budget.

LIST OF ATTACHMENTS:

ATTACHMENT A: Revised Classification Specification for Housing Program Coordinator

ATTACHMENT B: Revised Salary Range for Housing Program Coordinator



CITY COUNCIL STAFF REPORT

MEETING DATE: *October 23, 2002*

Agenda Item # 7

Prepared By:

Finance Director

Submitted By:

City Manager

SEWER AND WATER REVENUE REQUIREMENTS

RECOMMENDED ACTIONS:

- 1) Review Water & Sewer Fund Revenue Requirements Study
- 2) Schedule a workshop on November 13 or November 23, 2002, to evaluate sewer and water revenue alternatives, so that a decision on these alternatives will occur by January 1, 2003
- 3) Authorize the City Manager to execute an increase in the contract with MAXIMUS in the amount of \$32,795.96, subject to the City Attorney's review and approval

EXECUTIVE SUMMARY:

The City's sewer and water rate consultant, MAXIMUS, has been studying the City's sewer and water revenue requirements and rate structure over the past year. The rates were last adjusted in 1997. The consultant has worked with staff and produced the attached report, in which they have analyzed and projected the City's water and sewer revenue requirements. From this review and analysis, they have concluded that there is no obvious reason why the City's water or sewer rate structures should be changed and they have not recommended any such changes. Concerning sewer rates, they have concluded that there is no need to change the existing rates for the period through 2006/07.

For water rates, the consultant has provided three options:

- 1) Increase water rates by 2% in each of the years from 2002/03 through 2006/07; *or*
- 2) Implement a one-time increase of 8% to water rates effective April 1, 2003; *or*
- 3) Borrow \$1.5 million in the bond market in 2004/05, to finance capital related costs, and keep rates constant through 2006/07.

The consultant's assumptions include a 3% annual inflationary increase in costs, including the City's cost of purchasing water from the Santa Clara Valley Water District. Should actual annual water cost increases be higher than 3%, revenue requirements would increase and water rates for the City's customers would be impacted. While option #3 would keep rates constant through 2006/07, it would cause higher water rates down the line because related future debt service payments would be financed by future rate payers.

Staff seeks guidance from the Council as to which of the consultant's three options for meeting water revenue requirements should be implemented. Staff believes a workshop study session would be ideal for the Council to further discuss the alternatives and receive community input concerning sewer and water revenue requirements and rates, so that a decision on these alternatives may be made by January 1, 2003.

FISCAL IMPACT:

The overall conclusion reached by the consultant is that the sewer revenue requirements do not require any rate adjustments at this time and that water revenue requirements indicate that the City should take steps to provide for projected revenue requirements.

It is also necessary to adjust the contract with MAXIMUS by \$27,043.30 to provide for necessary services related to the sewer and water study and by \$5,752.66 for work on the completed development impact fee study, for a total increase of \$32,795.96. These necessary additional costs result from the complexity of the tasks and additional time spent by the consultant. These costs may be absorbed within the existing budget.



CITY OF MORGAN HILL

WATER AND SEWER FUND REVENUE REQUIREMENTS STUDY

HILTON FARNKOPF & HOBSON, LLC



October 17, 2002

City of Morgan Hill

17555 PEAK AVENUE

MORGAN HILL, CA 95037

WATER AND SEWER FUND REVENUE REQUIREMENTS STUDY

OCTOBER 17, 2002



Hilton Farnkopf & Hobson, LLC

2175 N. California Blvd., Suite 990

Walnut Creek, CA 94596

TEL: (925) 977-6950 FAX: (925) 977-6955

October 17, 2002

Mr. Jack Dilles, Director
Finance Department
City of Morgan Hill
17555 Peak Avenue
Morgan Hill, CA 95037

Subject: Water and Sewer Fund Revenue Requirements Study

Dear Mr. Dilles:

Hilton Farnkopf and Hobson, LLC is pleased to present the City with this Water and Sewer Fund Revenue Requirements Study.

This report updates our earlier April 2002 report to account for recent changes in the fiscal year 2002-03 budget and projections through fiscal year 2006-07. Potential rate and debt funding options to meet revenue requirements are also briefly summarized.

If you have any questions about this study, please contact me at 925-977-6953, or Greg Clumpner at 530-759-1650.

Very truly yours,

HILTON FARNKOPF & HOBSON, LLC

John W. Farnkopf, P.E.
Senior Vice President

Attachments

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I. EXECUTIVE SUMMARY

Hilton Farnkopf and Hobson, LLC (HF&H) has prepared this report for the City of Morgan Hill (the City) under a subcontract with DMG Maximus, Inc. The following is a brief summary.

WHY WAS THIS STUDY PREPARED?

The City has studied its water and sewer rates within the last few years and is reasonably satisfied with its current water and sewer rate structure. However, the City has been updating its water and sewer master plans and capital improvement programs, and wanted to review the impacts these changes may have on the revenue requirements for these utilities. The primary purpose of this study is to evaluate revenue requirements. Rate and funding options are only present briefly for informational purposes and not to provide recommendations on rate adjustments.

WHAT DID THE STUDY ENTAIL?

Beginning in August of 2001, HF&H evaluated the City's current water and sewer rates, considered the revised costs of planned capital improvements, projected the overall revenue requirements, and calculated the rate increases needed to meet future operating and capital costs. In an April 2002 version of this report, HF&H presented 5-year financial plans for both Water and Sewer Funds. This plan outlined contributions to fund reserves, year-end balances, the funding sources for capital projects, and prepared projections of rate increases. Since that study was completed, the City's budgets have continued to change, necessitating this update. In particular, the City has responded to increasing costs in the water fund by re-examining and reducing its budgeted expenses, including the cost, timing, and need for capital projects.

WHAT ARE THE PROJECTED REVENUE REQUIREMENTS?

Based on the City's estimated actual FY 01-02 and adopted FY 02-03 budgets and input from HF&H, City staff made additional adjustments to the projected water and sewer revenue requirements. HF&H has reviewed and incorporated these projections. Table ES-1 and Figures ES-1 and ES-2 show the resulting projections over the next four years. It should be noted that the "Percent Change" shown for both the Water and Sewer Funds in Table ES-1 represents the change from year to year in the revenue requirements, not rate increases.

This table and these figures illustrate the dramatic increase in Water Fund revenue requirements from FY 00-01 to FY 01-02 due to higher costs of capital projects and to a lesser extent the drop in non-rate revenues. After a return to more normal levels of capital costs in FY 03-04, the projected revenue requirements are characterized by smaller, steadier increases.

The changes in the Sewer Fund projections are more gradual and less dramatic.

Table ES-1

Summary of Water & Sewer Revenue Requirements*City of Morgan Hill*

	FY'00-01	FY'01-02	FY'02-03	Projected Revenue Requirements			
	Est. Actual	Est. Actual	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Fund (650)							
Water Operations	\$2,807,834	\$3,595,764	\$4,194,719	\$4,373,600	\$4,446,400	\$4,562,900	\$4,682,700
Water Purchases	\$871,271	\$1,005,316	\$1,115,847	\$1,217,000	\$1,279,000	\$1,343,000	\$1,411,000
Transfers Out (In)	\$987,950	\$2,079,808	\$3,269,799	\$1,481,800	\$1,032,537	\$1,055,937	\$1,080,037
less Non-Rate Revenue	<u>(\$674,656)</u>	<u>(\$356,495)</u>	<u>(\$401,347)</u>	<u>(\$419,500)</u>	<u>(\$427,700)</u>	<u>(\$436,100)</u>	<u>(\$444,700)</u>
Net Revenue Req'ts.	\$3,992,399	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Percent Change		58%	29%	-19%	-5%	3%	3%
Sewer Fund (640)							
Sewer Operations	\$5,082,136	\$5,297,634	\$5,983,857	\$5,968,988	\$6,053,546	\$6,180,346	\$6,310,646
Transfers Out (In)	\$978,706	\$850,543	\$391,377	\$503,100	\$765,200	\$877,700	\$890,600
less Non-Rate Revenue	<u>\$ (412,500)</u>	<u>\$ (417,402)</u>	<u>\$ (422,000)</u>	<u>\$ (434,000)</u>	<u>\$ (446,000)</u>	<u>\$ (459,000)</u>	<u>\$ (473,000)</u>
Net Revenue Req'ts.	\$5,648,342	\$5,730,775	\$5,953,234	\$6,038,088	\$6,372,746	\$6,599,046	\$6,728,246
Percent Change		1%	4%	1%	6%	4%	2%

Source: Water and Sewer Rate Model Tables FP-W1 and FP-S1.

Figure ES-1 - Projected Water Fund Revenue Requirements
(with Level Rate Increases of 2%/year - for Illustration Purposes)

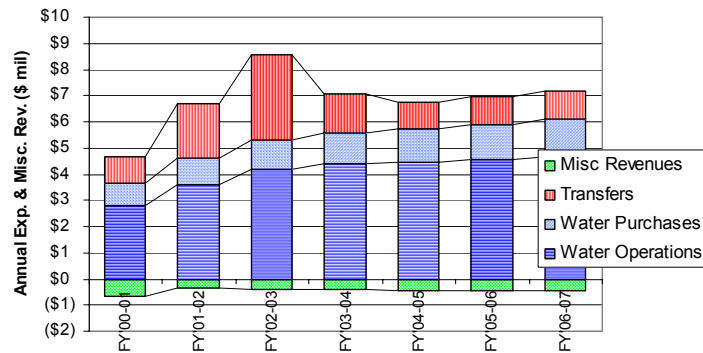
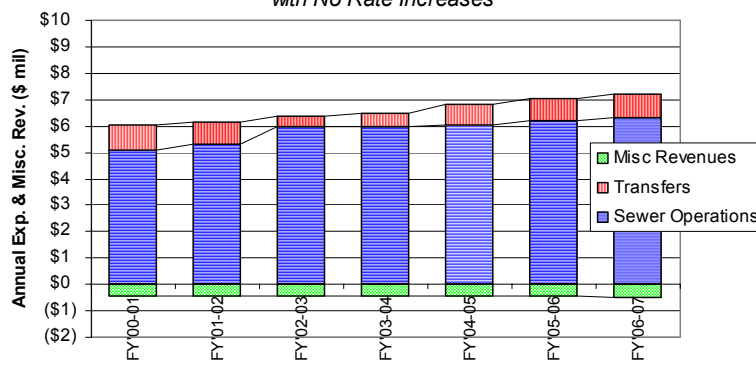


Figure ES-2 - Annual Sewer Fund Revenue Requirements
with No Rate Increases



WHAT ARE THE RATE AND FUNDING ALTERNATIVES?

To meet revenue requirements in the Water Fund, the City could pursue one of the following options, or some combination of these alternatives:

- **Alternative 1 - Level Water Rate Increases of 2%/Year** – Adopting a water rate increase of 2%/year beginning in FY 02-03 would be sufficient to meet revenue requirements.
- **Alternative 2 - One-Time Rate Increase of 8%** – This one-time rate 8% increase in FY 02-03 could be used to meet the revenue requirements and target reserve fund levels through the end of FY 06-07.
- **Alternative 3 - Additional Debt Only** – If the City chose to not increase rates through FY 06-07, it could still meet the water utility's revenue requirements by issuing an additional \$2 million in revenue bonds, or other debt, in or around FY 04-05 to meet the capital projects requirements and target reserve levels.

It appears the City would not need to increase rates in the Sewer Fund to meet projected revenue requirements, assuming the City issues the \$8 million in revenue bond proceeds in FY 04-05 as currently shown in the 5-year capital improvement program.

WHAT OTHER FINDINGS DOES HF&H MAKE IN THIS REPORT?

Based on our review, the City should consider the following findings along with the results of the revenue requirements:

- **Rate Structures** – The City's current water and sewer rate structures do not warrant any significant revisions.
- **Rate Adjustments** – As a next step, the City should carefully evaluate the projected expenditures in the CIP program and the rate adjustments and/or debt funding needed over the next few years to meet these revenue requirements.
- **Future Review** – The City should annually review the assumptions used in developing the budgets, revenue requirements, and capital expenditures.

II. INTRODUCTION

In the last few years, the City studied its water and sewer rates, including public workshops. As a result, the City already has a rate structure that meets many of the City's ratemaking objectives. Therefore, when the City initially retained HF&H to review the existing rates, our primary objective was to identify further improvements and rate adjustments needed to meet future revenue requirements. The City also requested that we do this within the context of a 5-year financial plan for both the Water and Sewer Funds.

City staff requested that the emphasis in this report be on the projected revenue requirements, while also providing a brief overview of alternatives for adjusting water and sewer rates. City staff have also indicated that the City Council and other stakeholders will review these revenue requirements and determine what additional analysis, if any, is needed prior to considering any rate changes.

The following report provides a brief overview of the proposed 5-year financial plans, and several alternative rate adjustments for informational and illustrative purposes.

STUDY APPROACH

The initial study task was to collect input from City staff, including the current budget, rate structure, and other financial information for both the Water and Sewer Funds. As a part of the initial rate review, we also reviewed the City's water consumption records and sewer customer characteristics, which play a role in determining equitable water and sewer rates.

To address the equity of rates and the appropriateness of the rate structures, we developed rate models for both Water and Sewer Funds, and developed financial plans for each utility. The technical core of these rate models and financial plans addressed how costs are allocated among various customer classes, the contributions needed in the City's reserve funds, and how to meet future revenue requirements. The 5-year planning period addressed was FY 02-03 through FY 06-07.

Some of the basic assumptions used in these rate models included:

- Projected growth in customer accounts: 2.0%/year
- Projected escalation in employee salaries: 3.0%/year
- Projected general inflation rate: 3.0%/year
- Projected interest earnings rate: 4.0%/year

Some of the more specific assumptions include:

- Current SCVWD water rates (i.e., the pump tax) will increase at 3%/year, and the City will also pay for more water due to growth-related increases in total

consumption. However, these 3%/year rate increases are less than half the increases that SCVWD is projecting, and any increases above this 3% will directly increase the City's water revenue requirements.

- The City will be reimbursed \$700,000 in FY 03-04 for well construction costs it incurred on behalf of other entities.
- The FY 02-03 transfer of \$1.3 million from operations to the Water Impact Fund (651) will be repaid to the operations fund before the end of the study period.
- We assumed that debt service on any new revenue bonds is based on a repayment period of 20 years, an interest rate of 6%, and issuance and reserve fund requirements amounting to 10% of the net bond proceeds.
- Any optional rate increases in FY 02-03 would take effect on April 1, 2003 and, therefore, would only generate additional rate revenue in the last quarter of the fiscal year. However, these rate increases would carry over to subsequent years and generate additional rate revenues for the remainder of the study period.

Although projected expenditures reflect the City's most recent budgets, in an effort to reduce total water revenue requirements in FY 02-03 and thereafter City staff and HF&H have made additional adjustments to water operating costs, capital costs, and how transfers and reserve funds are used. Therefore, the Water Fund "current plan" budget for FY 02-03 is different than the adopted FY 02-03 budget.

Projected expenditures after FY 02-03 generally assume costs are inflated at 3 percent per year. The SCVWD currently projects rate increases of approximately 30 percent between FY 02-03 and FY 06-07. However, the City's past experience is that SCVWD increases are not as great as projected. Because of this, the City is assuming only a 3%/year rate increase in SCVWD's pump tax rates during the next four years. Any additional SCVWD increases would directly increase the City's water revenue requirements.

Once the budget data were collected and the budget adjustments accounted for, initial rate model and financial plans were developed. Using these tools, we evaluated the projected operations budgets and the resulting net revenue required from water and sewer. Those net revenue requirements are the result of the following factors:

+ Operating Expenses (from Budgets)
+ Reserve Fund Transfers Out (or In)
+ CIP Funding Needs
- Non-Rate Revenues
<hr/>
Net Revenue Requirements

III. WATER AND SEWER 5-YEAR FINANCIAL PLANS

After reviewing the cost allocations to the customer classes, we concluded that the City need not substantially change its rate structures. We therefore focused our efforts on the revenue requirements, fund balances, and potential rate increases needed, which are reflected in the financial plans. Alternative rate adjustments are discussed in the last section.

This section presents the 5-year financial plans for the Water and Sewer Funds. These plans consist of projected revenue requirements, transfers between reserve funds, and ending-year reserve fund balances. These components are discussed individually below. Supporting tables, including details of the budget projections, are provided in Appendix A for water revenue requirements, and in Appendix B for the sewer.

WATER FINANCIAL PLAN

Revenue Requirements

The projected revenue requirements for the Water Operations Fund (650) are presented in Table FP-W1A and Figure 1A. For illustration purposes, we have assumed that rate increases of 2% per year are implemented in order to meet reserve fund target balances.

Table FP-W1A

Projected Water Fund Revenue Requirements (with Level Rate Increases of 2%/year)

City of Morgan Hill

Water Fund Expenses	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	c 174,446	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From) d						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	675,000	675,000	675,000	675,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,481,800	1,032,537	1,055,937	1,080,037
Total - Operations & Transfers	6,680,888	8,580,365	7,072,400	6,757,937	6,961,837	7,173,737
less Misc. Non-Rate Revenue e	(\$356,495)	(\$401,347)	(\$419,500)	(\$427,700)	(\$436,100)	(\$444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Annual Change in Revenue Requirements		29.3%	-18.7%	-4.8%	3.1%	3.1%

a. From Appendix Table BP-W1, Water Operations - Summary of Budget Projections.

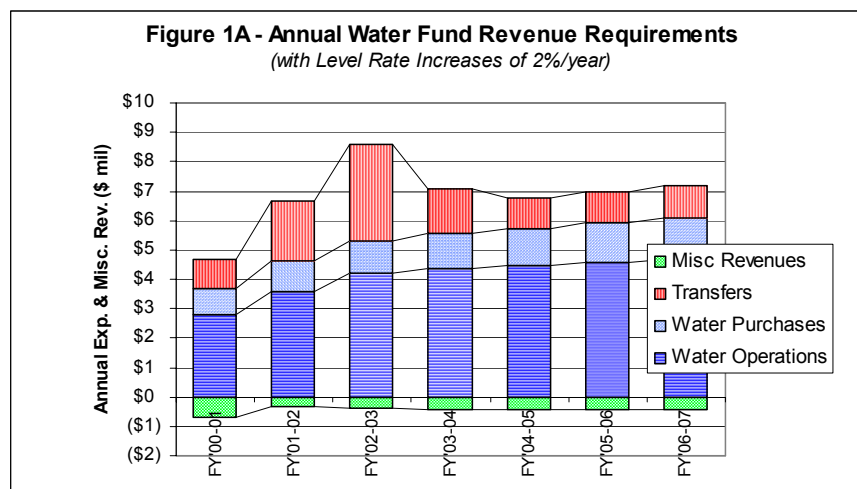
b. Projected using Adopted FY'02-03 budget and the inflation rates and City staff adjustments shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers".

d. Transfers shown in Table FP-W1B.

e. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

This table indicates that net revenue requirements in FY 02-03 are almost 30% higher than the previous year, primarily due to significantly larger capital project-related transfers. There are small annual transfers from operations to the Rate Stabilization Fund (652) beginning in FY 03-04 for the purpose of maintaining the reserve target level of Fund 652. As shown in Figure 1A, the various categories of revenue requirements have steady increases in FY 03-04 and thereafter with the exception of capital-related transfers, which grew dramatically in FY 02-03 but return to more normal levels in FY 03-04.



Potential Rate Increases

There are a number of ways the City could meet these revenue requirements. We have provided an example of a commonly used approach for illustrative purposes: level rate increases sufficient to meet the requirements over the study period.

Table FP-W1C

Water Rate Increases Alternative (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative				
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07	
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037	
Revenue from Rates							
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000	
Revenue from previous years' rate increases	\$0	\$0	\$119,460	\$246,117	\$380,347	\$522,455	
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 6,092,460	\$ 6,338,117	\$ 6,594,347	\$ 6,860,455	
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (560,440)	\$ 7,880	\$ 68,610	\$ 131,418	
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)	
Rate Increase Alternative			2.0%	2.0%	2.0%	2.0%	
Cumulative Rate Increase			2.0%	4.0%	6.1%	8.2%	10.4%
REVENUE FROM RATE INCREASES (e)							
Effective March 1, 2002		\$29,280	\$119,460	\$121,840	\$124,280	\$126,760	
Effective July 1, 2003			\$121,849	\$124,277	\$126,766	\$129,295	
Effective July 1, 2004				\$126,762	\$129,301	\$131,881	
Effective July 1, 2005					\$131,887	\$134,519	
Effective July 1, 2006						\$137,209	
Subtotal - Revenue from Rate Increases	\$ -	\$ 29,280	\$ 241,309	\$ 372,879	\$ 512,233	\$ 659,664	
Total Rate Revenue	\$ 5,991,000	\$ 5,885,195	\$ 6,214,309	\$ 6,464,879	\$ 6,726,233	\$ 6,997,664	
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627	

a. From Table FP-W1A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W1B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Dev., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Projected Reserve Contributions and Balances

The City maintains four reserve funds in the water fund:

- Water Operations Fund (650)
- Water Impact Fund (651)
- Water Rate Stabilization Fund (652)
- Water Capital Projects Fund (653)

The flow of money between these funds and their ending balances are important aspects of the water fund's financial management, and are shown in Table FP-W1B over the next 5 years.

This table also summarizes two cases for the Water Operations Reserve Fund (650): (1) no rate increases, and (2) 2% rate increases. This second case is discussed more in Section IV. These reserve funds accumulate the beginning balances, plus any operating surplus or deficit (e.g., rate revenue less revenue requirements), plus interest earned in the fund during the year. In the Water Impact Fund (651), we have included additional revenue bond proceeds of \$1.5 million, which is necessary to avoid year-end deficits in this fund.

Table FP-W1B

Projected Reserve Contributions and Balances (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02		FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
	Est.	Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)							
<i>Fund Balance Without Rate Increases</i>							
Beginning Fund Balance		\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)		(\$333,393)	(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (<i>Without Rate Incr.</i>)		\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282	(\$327,755)
<i>Fund Balance With Rate Increases</i>							
		Rate Increases:	2.0%	2.0%	2.0%	2.0%	2.0%
Beginning Fund Balance		\$3,480,150	\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687
Annual Surplus/(Deficit)		(\$333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$33,766</u>	<u>\$40,502</u>	<u>\$50,142</u>	<u>\$62,893</u>
Ending Fund Balance (650) (<i>With Rate Incr.</i>)		\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687	\$1,635,206
Minimum Target Ending Balance (25% of Oper. Budget)		\$1,670,000	\$2,145,000	\$1,768,000	\$1,689,000	\$1,740,000	\$1,793,000
Water Rate Stabilization Fund (652)							
Beginning Fund Balance		\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)	\$0	\$0	\$0	\$0	\$0
<i>Transfer In from (Out to) Operations (650)</i>		<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)							
Beginning Fund Balance	<i>g</i>	\$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings		\$29,000	\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property		\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
<i>Transfer in from(out to) Operations (650)</i>	<i>e</i>	<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>
Ending Fund Balance		\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) <i>h</i>		\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances							
Total Reserves (<i>Without</i> Rate Increases)		\$8,185,218	\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (<i>With</i> Rate Increases)		\$8,185,218	\$3,312,045	\$2,843,219	\$3,549,363	\$3,754,002	\$4,636,521
Total Target Reserves (650, 652, 653)		\$4,370,000	\$4,890,000	\$4,559,000	\$4,528,000	\$4,628,000	\$4,832,000
Water Impact Fund (651)							
Beginning Fund Balance		\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i>	\$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Net Proceeds from New Revenue Bonds					\$1,500,000		
Repayment of New Revenue Bonds						(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
<i>Transfer In From (Out To) Operations (650)</i>		\$0	\$1,335,000	\$0	\$0	\$0	\$0
<i>Repayment of Transfer From Operations (650)</i>			\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)			\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users)	<i>e</i>	(\$1,178,961)	(\$900,234)	(\$745,000)	(\$120,000)	(\$620,000)	(\$120,000)
Ending Fund Balance		\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)				\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italic Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, fax from Jack Dilles, 10/1/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. Source: City Finance Dept records, 10/1/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.

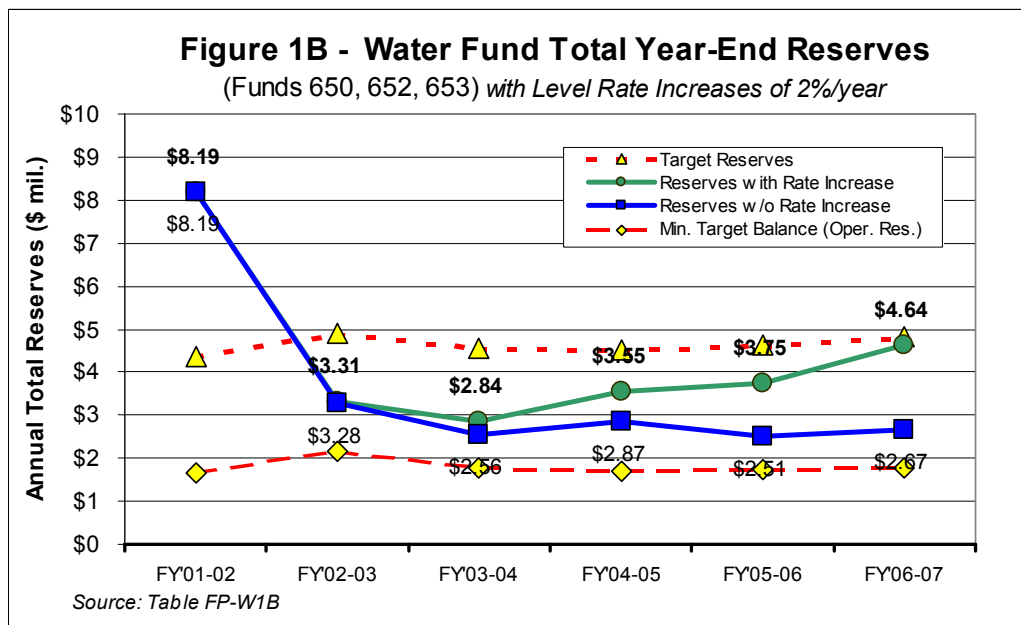
Target ending balances shown in this table for funds 650, 651, 652 and 653 are:

- Water Operations Fund (650) - The minimum target year-end balance is intended to provide the minimum advisable ending balance for a working capital reserve. Therefore, we have suggested a balance of 25% of the total operating budget, or three months of operating expenses.

- Water Rate Stabilization Fund (652) - The target balance is 20% of the annual water sales, and is intended to cover a 20% decline in water use due to a one-year drought.
- Water Impact Fund (651) and Water Capital Projects Fund (653) - The target balances for these funds are the 5-year average of the capital project costs in each.

As shown in Table FP-W1B, without the 2% rate increases, the operating fund's ending balance declines over the period, although it would still be adequate if used solely as a working capital reserve. We consider the target operations fund balance to be the minimum for the City's total reserves. Therefore, the City should carefully monitor these reserves over the next few years, particularly with regard to the need for additional revenue bonds in the Water Impact Fund (651) and the Water Capital Projects Fund (653).

Figure 1B illustrates the total reserve fund balances with and without the 2% rate increase compared to the target and minimum balances. The Water Impact Fund (651), which should be kept separate from non-impact fee funds, is not included in this total.



SEWER FINANCIAL PLAN

A similar financial plan was prepared for the Sewer Fund, and is outlined below.

Revenue Requirements

The projected revenue requirements for the Sewer Fund (640) are presented in Table FP-S1 and Figure 2, and indicate that FY 02-03 revenue requirements are about 4% higher than the previous year. The annual changes in revenue requirements are in the 1% to 5% range thereafter.

Table FP-S1

Projected Sewer Utility Revenue Requirements

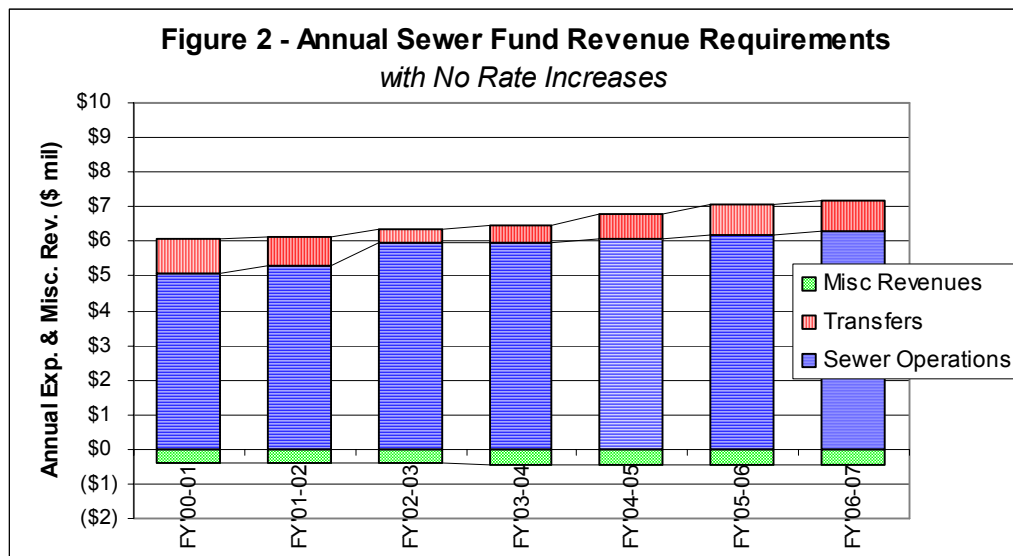
City of Morgan Hill

	YTD Expenses FY01-02 (b)	Adopted Budget FY02-03	Sewer Financial Plan - Projected Expenses and Revenues			
			Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07
Operating Expenses (a)						
Employee Services	\$794,628	\$887,520	\$970,800	\$999,900	\$1,029,900	\$1,060,900
Supplies & Services	2,536,052	2,701,686	2,782,800	2,866,300	2,952,200	3,040,700
Capital Outlay	45,567	49,725	91,200	52,800	54,400	56,000
Debt Service	1,637,946	2,069,674	1,840,688	1,842,546	1,843,146	1,843,346
Internal Services	231,586	275,252	283,500	292,000	300,700	309,700
Encumbrances	51,855	0	0	0	0	0
Subtotal - Operating	\$5,297,634	\$5,983,857	\$5,968,988	\$6,053,546	\$6,180,346	\$6,310,646
Transfers To/(From) (c)						
Transfer-Street	\$160,000	\$200,000	\$206,000	\$212,200	\$218,600	\$225,200
Transfer-GF Fund	15,000	17,500	18,000	18,500	19,100	19,700
Transfer - Sewer Rate Stabilization Fund 642	0	(500,000)	(400,000)	(400,000)	(300,000)	(300,000)
Transfer-Sewer Replacement Fund 643	500,000	500,000	500,000	750,000	750,000	750,000
Transfer-Water Operations Fund 650	175,543	173,877	179,100	184,500	190,000	195,700
Subtotal - Transfers	<u>\$850,543</u>	<u>\$391,377</u>	<u>\$503,100</u>	<u>\$765,200</u>	<u>\$877,700</u>	<u>\$890,600</u>
Total Revenue Requirement	\$6,148,177	\$6,375,234	\$6,472,088	\$6,818,746	\$7,058,046	\$7,201,246
less Other (Non-Rate) Revenues	(\$417,402)	(\$422,000)	(\$434,000)	(\$446,000)	(\$459,000)	(\$473,000)
Net Revenue Requirements	\$5,730,775	\$5,953,234	\$6,038,088	\$6,372,746	\$6,599,046	\$6,728,246
<i>Annual Change in Revenue Requirements</i>		3.9%	1.4%	5.5%	3.6%	2.0%

a. From App. Table BP-S1, Sewer Operations - Summary of Budget Projections, projections based on assumed inflation rates.

b. From App. Table BP-S1, Sewer Operations - Summary of Budget Projections.

c. From Table BP-S1 except Fund 642 and 643 which are from Table FP-S3.



Potential Rate Increases

As noted earlier, the Sewer Fund does not appear to need rate increases to maintain its reserve fund target balances during the study period. Table FP-S2 shows the projected rate revenue compared to revenue requirements and resulting net annual surplus/deficit. These surplus/deficits are carried forward and accounted for in the Sewer Operating Reserve Fund (640).

Table FP-S2

Sewer Rate Increases Alternative

City of Morgan Hill

	Est. Actual FY '01-02	Adopted Budget				
		FY'02-03	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (From Table FP-S1)	\$5,730,775	\$ 5,953,234	\$ 6,038,088	\$ 6,372,746	\$ 6,599,046	\$ 6,728,246
Revenue from Rates						
Revenue from Current Rates (a)	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Revenue from previous years' rate increase	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Surplus/(Deficit) before rate increase	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)
Surplus/(Deficit) (No Rate Increases)	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)
Rate Increase Alternative		0.0%	0.0%	0.0%	0.0%	0.0%
Cumulative Rate Increase		0.0%	0.0%	0.0%	0.0%	0.0%
REVENUE FROM RATE INCREASES (b)						
Effective July 1 of each year: FY 02-03		\$0	\$0	\$0	\$0	\$0
FY 03-04			0	0	0	0
FY 04-05				0	0	0
FY 05-06					0	0
FY 06-07						0
Subtotal - Revenue from Rate Increases	\$0	\$0	\$0	\$0	\$0	\$0
Total Rate Revenue	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Annual Surplus/(Deficit) after Rate Increase	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)

a. FY01-02 is from Jack Dilles, email to HF&H 5/14/02. Projections include a growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

b. Rate revenue from the rate increase alternative in the current year.

Projected Reserve Contributions and Balances

The City maintains four reserve funds in the Sewer Fund:

- Sewer Operations Fund (640)
- Sewer Impact Fund (641)
- Sewer Rate Stabilization Fund (642)
- Sewer Capital Projects Fund (643)

The projected transfers between funds and the year-end balances over the next 4 years are shown in Table FP-S3. As with the Water Operations Reserve Fund, the Sewer Operating Reserve accumulates the beginning-year balance of Fund 640, plus any operating surplus or deficit (i.e., rate revenue less revenue requirements), plus interest earned in the fund during the year. This table shows a transfer from the rate stabilization fund to sewer operations due to excess funds that were accumulating in the rate stabilization fund. This transfer also helps avoid rate increases.

The year-end totals of the various Sewer Fund reserves exceed their target balances in almost every year. However, this assumes the City issues \$8 million in revenue bonds in FY 04-05, as shown in the City's 5 year Capital Improvements Program, to supplement the sewer impact fund (641).

As with the water fund, we have proposed target year-end balances for Sewer Funds 640, 642 and 643. These include:

- Operating Fund (640) - minimum balance of 25% of the operating budget.
- Rate Stabilization Fund (642) - minimum balance of 20% of the annual water sales, intended to cover a 20% decline in water use due to a one-year drought.
- Sewer Impact and Capital Projects Funds (641 and 643) - target is equal to the average of the capital project expenditures for future and current users, respectively.

Table FP-S3

Summary of Projected Sewer Reserve Contributions and Balances

City of Morgan Hill

	Est. Actual FY '01-02 (a)	Adopted Budget FY'02-03	Water Financial Plan - Transfers & Reserve Balances			
			FY'03-04	FY'04-05	FY'05-06	FY'06-07
Sewer Operations Fund (640)						
<i>Fund Balance Without Rate Increases</i>						
Beginning Fund Balance	\$5,564,044	\$5,260,592	\$4,697,008	\$4,155,921	\$3,390,175	\$2,510,129
Annual Surplus/(Deficit)	<u>(303,452)</u>	<u>(563,584)</u>	<u>(541,088)</u>	<u>(765,746)</u>	<u>(880,046)</u>	<u>(895,246)</u>
Ending Balance (640) (Without Rate Incr.)	\$5,260,592	\$4,697,008	\$4,155,921	\$3,390,175	\$2,510,129	\$1,614,884
Minimum Target Balance (25% of Oper. Budget)	\$1,324,000	\$1,496,000	\$1,492,000	\$1,513,000	\$1,545,000	\$1,578,000
Sewer Rate Stabilization Fund (642)						
Beginning Balance	\$3,061,482	\$3,469,485	\$3,392,863	\$3,421,863	\$3,460,863	\$3,614,863
Reimbursement of Expenses (SCRWA)	\$312,609	300,000	309,000	318,000	328,000	338,000
Interest Income (d)	97,386	123,378	120,000	121,000	126,000	133,000
Other Costs	(1,992)	0	0	0	0	0
Transfers to Operations (640)	<u>0</u>	<u>(500,000)</u>	<u>(400,000)</u>	<u>(400,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>
Ending Balance	\$3,469,485	\$3,392,863	\$3,421,863	\$3,460,863	\$3,614,863	\$3,785,863
Target Balance (20% of Sewer Rate Rev.) (e)	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,200,000
Sewer Capital Projects Fund (643) (f)						
Beginning Balance	\$3,450,429	\$3,386,172	\$1,112,489	\$293,489	\$357,489	\$423,489
Interest Income (d)	117,971	108,421	11,000	14,000	16,000	19,000
Transfer to Capital Projects (Current Users)	(682,228)	(1,820,000)	(1,330,000)	(700,000)	(700,000)	(700,000)
Re-Budgeted Capital Projects (g)	0	(1,062,104)	0	0	0	0
Add'l. Transfer In from Oper. Fund	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>
Ending Balance	\$3,386,172	\$1,112,489	\$293,489	\$357,489	\$423,489	\$492,489
Target Balance (Ave. of CIP Transfers Out) (h)	\$990,000	\$1,020,000	\$1,051,000	\$1,083,000	\$1,115,000	\$1,148,000
Total Sewer Reserves (640, 642, 643) - Ending Balances						
Total Reserves (Without Rate Increases)	\$12,116,249	\$9,202,360	\$7,871,273	\$7,208,527	\$6,548,481	\$5,893,236
Total Target Reserves (640, 642, 643)	\$6,764,000	\$3,616,000	\$3,643,000	\$3,696,000	\$3,760,000	\$3,926,000
Sewer Impact Fund (641)						
Beginning Balance	\$6,820,277	\$5,574,881	\$2,873,768	\$1,644,768	\$11,270,768	\$11,629,768
Interest Income (d)	189,744	176,887	63,000	126,000	477,000	184,000
New Revenue Bond Proceeds (i)	0	0	0	8,000,000	0	0
Debt Service on New Revenue Bonds (i)	0	0	0	0	(770,000)	(770,000)
Impact Fees Received	1,250,000	1,125,000	1,730,000	1,985,000	2,170,000	1,368,000
Transfer (Out) - Sewer CIP (Future Users)	<u>(2,685,140)</u>	<u>(4,003,000)</u>	<u>(3,022,000)</u>	<u>(485,000)</u>	<u>(1,518,000)</u>	<u>(8,386,000)</u>
Ending Balance	\$5,574,881	\$2,873,768	\$1,644,768	\$11,270,768	\$11,629,768	\$4,025,768
Target Balance (Ave. of CIP Transfers Out)	\$3,350,000	\$3,450,000	\$3,550,000	\$3,660,000	\$3,770,000	\$3,880,000

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is from Estimated Actual Budget shown in Adopted FY'02-03 Budget.

b. FY01-02 beginning year balances are set to yield the ending balances provided by Finance Department, 10/1/02.

c. FY '01-02 and '02-03 impact fees are from the Adopted FY 02-03 Budget. After FY 02-03, projections from Table CF-3 are used.

d. Interest earnings on current year funds assuming a 4% interest rate.

e. 20% of Sewer service charges from total rate revenue in Table FP-S2, rounded to nearest \$100,000.

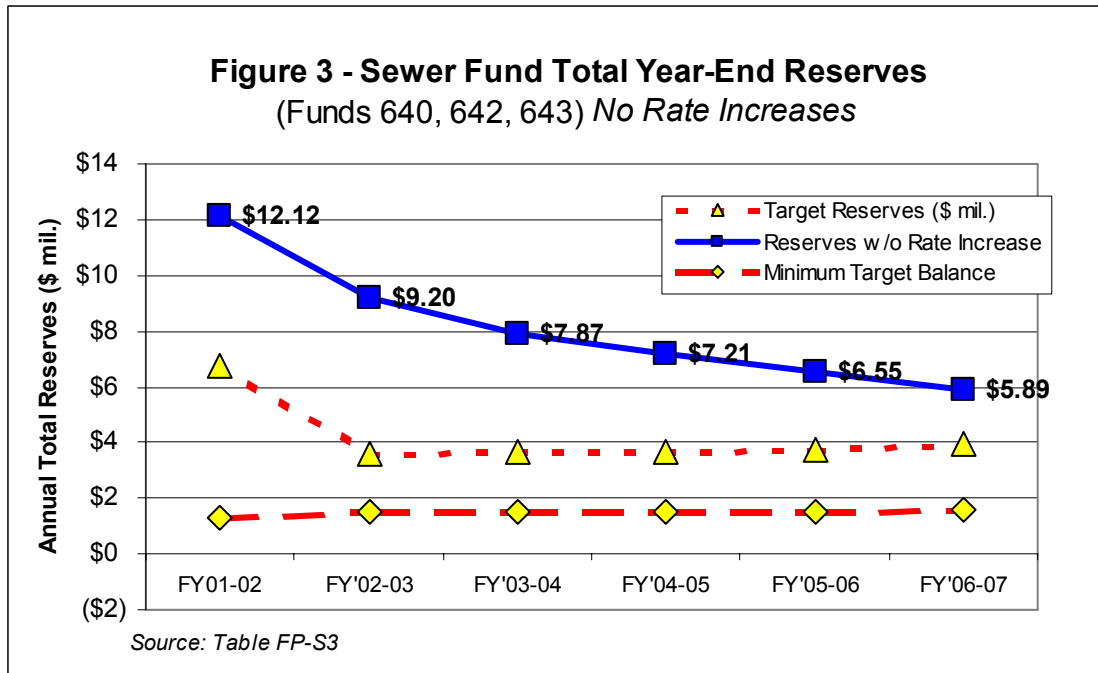
f. On 6/30/01, the Sewer System Replacement Fund 645 was combined into the Sewer Capital Projects Fund 643.

g. Projects planned for previous construction but now re-allocated to construction in '02-03. From Jack Dilles, 10/2/02.

h. Target ending balance is the 6-year average CIP project costs for current or future users, from Table FP-S4.

i. New revenue bond shown is from the City CIP dated 7-18-02. Debt service assumes 6% interest rate, 20 yr repayment, 10% issuance and reserve costs.

This table shows that without rate increases, the year-end balance of the total sewer reserves (funds 640, 642, and 643) decline from \$12.1 million to \$5.9 million, which is still well above the target reserve level of \$3.9 million. These changes in year-end total reserves are shown in Figure 3 below.



IV. RATE ALTERNATIVES TO MEET REVENUE REQUIREMENTS

The projected revenue requirements provide important information for the City to consider in developing its financial plans over the next several years. Included in these plans are the potential adjustments the City may need to make in its water and sewer rates.

Although it appears no rate increases will be needed in the Sewer Fund, the Water Fund will require additional revenue to meet the revenue requirements, including about \$1.5 million in additional debt in the Water Impact Fund (651). However, this section is not intended to provide a detailed review of alternative water rate increases. Instead, we have provided a brief overview of some alternative approaches to meeting water revenue requirements:

Alternative 1 - Level rate increases each year starting in FY 02-03,

Alternative 2 - A one-time rate increase in FY 02-03, and

Alternative 3 - Additional debt only and no rate increases.

The rate increases in the first two alternatives assume that an FY 02-03 rate increase would take effect April 1, 2003. This means there will only be additional rate revenue for the last quarter of the fiscal year. However, the higher rates will produce additional rate revenue throughout the remainder of the period.

The following is a comparison of the impacts that these three alternative rate and funding scenarios would have on annual rate revenue and the year-end balances of the water reserve funds.

ALTERNATIVE 1 – LEVEL WATER RATE INCREASES

This first alternative has level rate increases of 2%/year beginning in FY 02-03. This is the same financial plan previously shown in Section III. For purposes of comparing this alternative with Alternatives 2 and 3, the information will be presented again here.

The characteristics of this plan are that it avoids the rate-shock that can accompany large, one-time increases, and instead provides smaller annual increases that minimize the changes in customer bills.

Table FP-W1A outlines the results of increasing the water rates by 2% each year beginning in FY 02-03. Figure 1A shows the resulting reserve fund balances.

Table FP-W1A

Projected Water Fund Revenue Requirements (with Level Rate Increases of 2%/year)

City of Morgan Hill

Water Fund Expenses	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	174,446 ^c	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From) ^d						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	675,000	675,000	675,000	675,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,481,800	1,032,537	1,055,937	1,080,037
Total - Operations & Transfers	6,680,888	8,580,365	7,072,400	6,757,937	6,961,837	7,173,737
less Misc. Non-Rate Revenue ^e	(\$356,495)	(\$401,347)	(\$419,500)	(\$427,700)	(\$436,100)	(\$444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Annual Change in Revenue Requirements		29.3%	-18.7%	-4.8%	3.1%	3.1%

a. From Appendix Table BP-W1, Water Operations - Summary of Budget Projections.

b. Projected using Adopted FY'02-03 budget and the inflation rates and City staff adjustments shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers".

d. Transfers shown in Table FP-W1B.

e. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

Figure 1A - Annual Water Fund Revenue Requirements
(with Level Rate Increases of 2%/year)

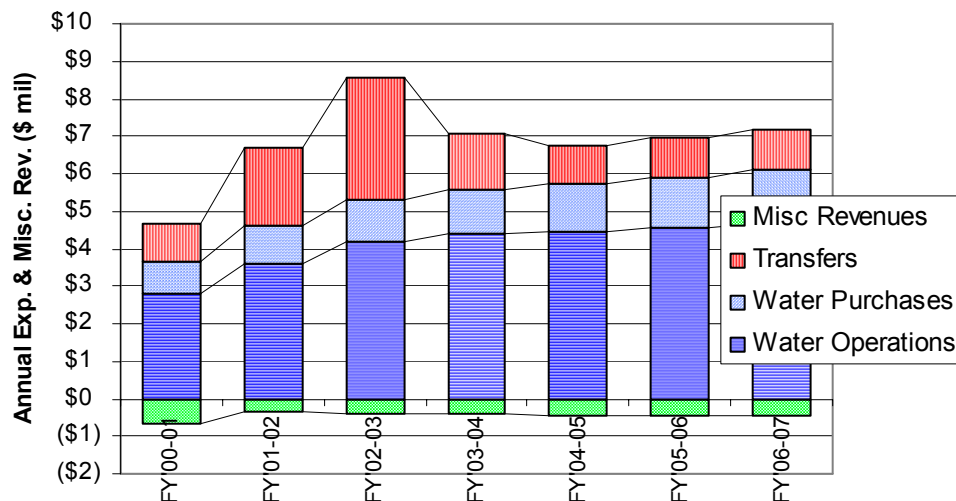


Table FP-W1C summarizes the additional rate revenue generated by these 2% rate increases, along with the annual surplus/deficits.

Table FP-W1C

Water Rate Increases Alternative (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative			
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	\$0	\$0	\$119,460	\$246,117	\$380,347	\$522,455
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 6,092,460	\$ 6,338,117	\$ 6,594,347	\$ 6,860,455
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (560,440)	\$ 7,880	\$ 68,610	\$ 131,418
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Rate Increase Alternative		2.0%	2.0%	2.0%	2.0%	2.0%
Cumulative Rate Increase		2.0%	4.0%	6.1%	8.2%	10.4%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		\$29,280	\$119,460	\$121,840	\$124,280	\$126,760
Effective July 1, 2003			\$121,849	\$124,277	\$126,766	\$129,295
Effective July 1, 2004				\$126,762	\$129,301	\$131,881
Effective July 1, 2005					\$131,887	\$134,519
Effective July 1, 2006						\$137,209
Subtotal - Revenue from Rate Increases	\$ -	\$ 29,280	\$ 241,309	\$ 372,879	\$ 512,233	\$ 659,664
Total Rate Revenue	\$ 5,991,000	\$ 5,885,195	\$ 6,214,309	\$ 6,464,879	\$ 6,726,233	\$ 6,997,664
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627

a. From Table FP-W1A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W1B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W1B summarizes the contributions to and ending balances of the reserve funds under a 2%/year rate increase. The results from this table are graphically presented in Figure1B.

Table FP-W1B

Projected Reserve Contributions and Balances (with Level Rate Increases of 2%/year)

City of Morgan Hill

		FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
		Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)							
<i>Fund Balance Without Rate Increases</i>							
Beginning Fund Balance		\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)		(\$333,393)	(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)		\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282	(\$327,755)
<i>Fund Balance With Rate Increases</i>							
	Rate Increases:		2.0%	2.0%	2.0%	2.0%	2.0%
Beginning Fund Balance		\$3,480,150	\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687
Annual Surplus/(Deficit)		(\$333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$33,766</u>	<u>\$40,502</u>	<u>\$50,142</u>	<u>\$62,893</u>
Ending Fund Balance (650) (<i>With</i> Rate Incr.)		\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687	\$1,635,206
Minimum Target Ending Balance (25% of Oper. Budget)		\$1,670,000	\$2,145,000	\$1,768,000	\$1,689,000	\$1,740,000	\$1,793,000
Water Rate Stabilization Fund (652)							
Beginning Fund Balance		\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)	\$0	\$0	\$0	\$0	\$0
Transfer In from (Out to) Operations (650)		<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)							
Beginning Fund Balance	<i>g</i>	\$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings		\$29,000	\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property		\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
Transfer in from/(out to) Operations (650) <i>e</i>		<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>
Ending Fund Balance		\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) <i>h</i>		\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances							
Total Reserves (<i>Without</i> Rate Increases)		\$8,185,218	\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (<i>With</i> Rate Increases)		\$8,185,218	\$3,312,045	\$2,843,219	\$3,549,363	\$3,754,002	\$4,636,521
Total Target Reserves (650, 652, 653)		\$4,370,000	\$4,890,000	\$4,559,000	\$4,528,000	\$4,628,000	\$4,832,000
Water Impact Fund (651)							
Beginning Fund Balance		\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i>	\$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Net Proceeds from New Revenue Bonds					\$1,500,000		
Repayment of New Revenue Bonds						(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
Transfer In From (Out To) Operations (650)		\$0	\$1,335,000	\$0	\$0	\$0	\$0
Repayment of Transfer From Operations (650)			\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)			\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) <i>e</i>		<u>(\$1,178,961)</u>	<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance		\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)				\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, fax from Jack Dilles, 10/1/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

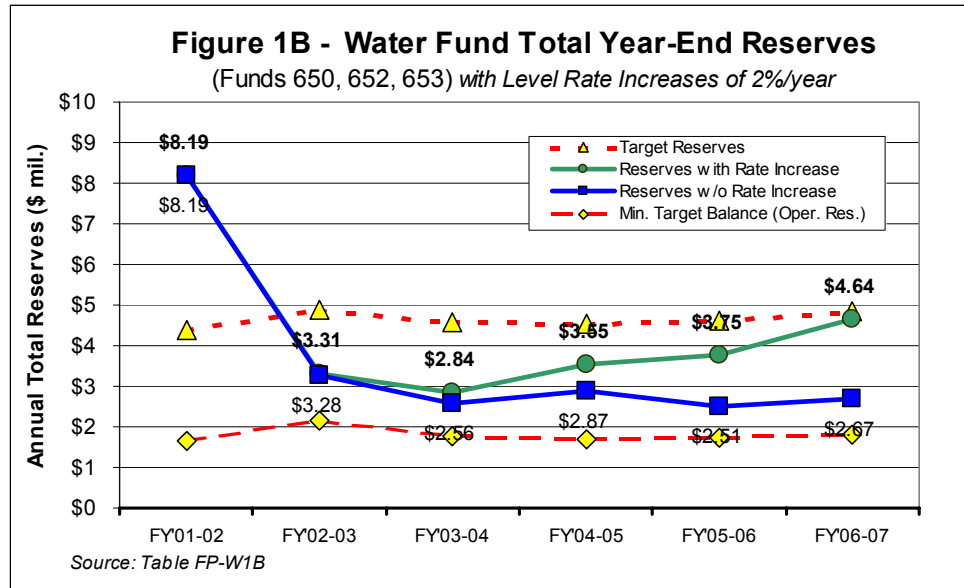
d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. Source: City Finance Dept records, 10/1/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



ALTERNATIVE 2 – ONE-TIME WATER RATE INCREASE

The revenue requirements in this alternative are the same as previously shown in Table FP-W1A and Figure 1A. However, a one-time rate increase of 8% generates different amounts of rate revenue and has different impacts on the water reserve funds. These rate revenues and reserve fund impacts are summarized in Tables FP-W2C and FP-W2B, respectively. The changes in the reserves are graphically represented in Figure 2B.

Table FP-W2C

Water Rate Increase Alternative - Alternative 2 (One-Time Rate Increase)

City of Morgan Hill

	FY'01-02 Est. Actual (b)	FY'02-03 Current Plan	Water Financial Plan - Rate Increase Alternative			
			FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	\$0	\$0	\$477,840	\$487,360	\$497,120	\$507,040
Subtotal	\$5,991,000	\$5,855,915	\$6,450,840	\$6,579,360	\$6,711,120	\$6,845,040
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (202,060)	\$ 249,123	\$ 185,383	\$ 116,003
Surplus/(Deficit) (No Rate Increases)						
Rate Increase Alternative						
Cumulative Rate Increase			8.0%	8.0%	8.0%	8.0%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		\$117,118	\$477,840	\$487,360	\$497,120	\$507,040
Effective July 1, 2003			\$0	\$0	\$0	\$0
Effective July 1, 2004				\$0	\$0	\$0
Effective July 1, 2005					\$0	\$0
Effective July 1, 2006						\$0
Subtotal - Revenue from Rate Increases	\$ -	\$ 117,118	\$ 477,840	\$ 487,360	\$ 497,120	\$ 507,040
Total Rate Revenue	\$ 5,991,000	\$ 5,973,033	\$ 6,450,840	\$ 6,579,360	\$ 6,711,120	\$ 6,845,040
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	\$ (2,205,985)	\$ (202,060)	\$ 249,123	\$ 185,383	\$ 116,003

a. From Table FP-W2A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W2B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W2B

Projected Reserve Contributions and Balances - Alternative 2 (One-Time Rate Increase)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)						
<i>Fund Balance Without Rate Increases</i>						
Beginning Fund Balance	\$3,480,150 ^b	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)	(\$333,393)	(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income	<u>\$227,000</u>	<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282	(\$327,755)
<i>Fund Balance With Rate Increases</i>						
	Rate Increases:	8.0%	0.0%	0.0%	0.0%	0.0%
Beginning Fund Balance	\$3,480,150	\$3,373,757	\$1,370,568	\$1,215,249	\$1,522,946	\$1,776,663
Annual Surplus/(Deficit)	(\$333,393)	(\$2,205,985)	(\$202,060)	\$249,123	\$185,383	\$116,003
Interest Income	<u>\$227,000</u>	<u>\$202,796</u>	<u>\$46,740</u>	<u>\$58,575</u>	<u>\$68,333</u>	<u>\$75,707</u>
Ending Fund Balance (650) (<i>With</i> Rate Incr.)	\$3,373,757	\$1,370,568	\$1,215,249	\$1,522,946	\$1,776,663	\$1,968,372
Minimum Target Ending Balance (25% of Oper. Budget)	\$1,670,000	\$2,145,000	\$1,768,000	\$1,689,000	\$1,740,000	\$1,793,000
Water Rate Stabilization Fund (652)						
Beginning Fund Balance	\$797,457 ^b	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income	\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services	(\$468)	\$0	\$0	\$0	\$0	\$0
Transfer In from (Out to) Operations (650)	<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) ^f	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)						
Beginning Fund Balance	^g \$3,648,853 ^b	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings	\$29,000	\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property	\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects	\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)	(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
Transfer in from/(out to) Operations (650) ^e	<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>
Ending Fund Balance	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) ^h	\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances						
Total Reserves (Without Rate Increases)	\$8,185,218	\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (With Rate Increases)	\$8,185,218	\$3,399,883	\$3,180,564	\$4,019,261	\$4,226,978	\$4,969,687
Total Target Reserves (650, 652, 653)	\$4,370,000	\$4,890,000	\$4,559,000	\$4,528,000	\$4,628,000	\$4,832,000
Water Impact Fund (651)						
Beginning Fund Balance	\$1,488,429 ^b	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income	\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	^d \$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Proceeds from New Revenue Bonds				\$1,500,000		
Repayment of New Revenue Bonds					(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects	\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
Transfer In From Operations (650)	\$0	\$1,335,000	\$0	\$0	\$0	\$0
Repayment of Transfer From Operations (650)		\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)		\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) ^e	<u>(\$1,178,961)</u>	<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)	\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)			\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, 2/26/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

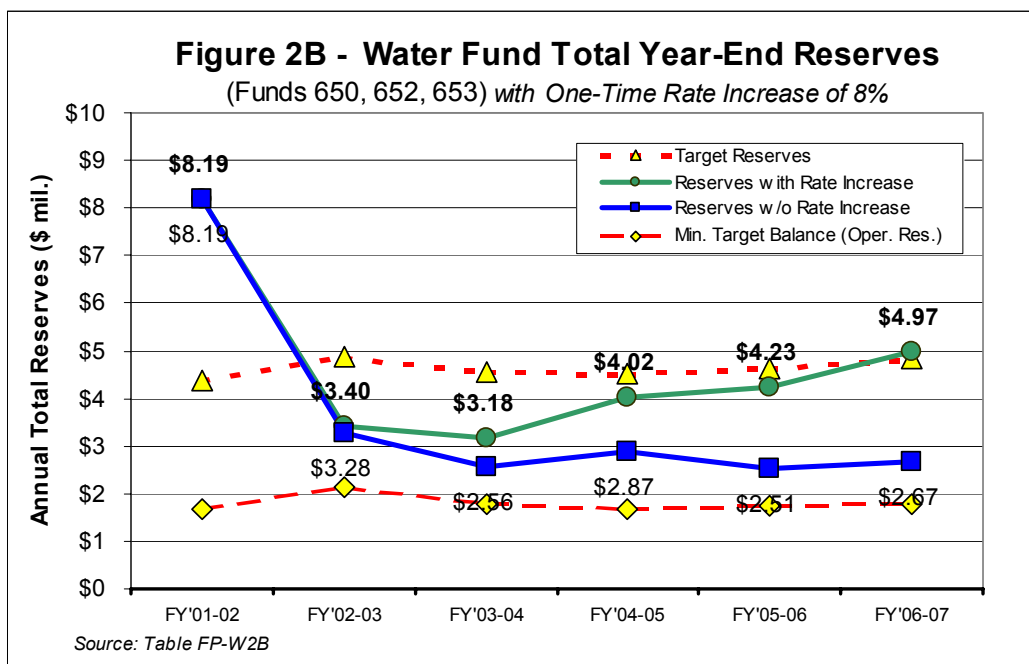
e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. The FY'01-02 beginning balance is for both funds.

Source: City Finance Dept records, 2/26/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



ALTERNATIVE 3 – ADDITIONAL DEBT ONLY

For this third alternative, we have assumed the City would issue an additional \$2 million in revenue bonds in FY 04-05 to fund projects in the Water Capital Projects Fund (653). We have assumed that the resulting debt service is based on a repayment period of 20 years, an interest rate of 6%, and issuance and reserve costs of 10%.

The primary benefits of this approach, which is in-lieu of rate increases, is that it avoids any rate increases, helps level out the ending fund balances, avoid deficits in fund 653, and meets overall reserve targets. The amount of additional debt incurred is a very moderate increase to the \$8 million already planned for FY 04-05. However, this does have the effect of increasing the City's repayment obligations and slightly increasing the City's revenue requirements in the long term when compared to a pay-as-you-go approach.

Table FP-W3A shows that the revenue requirements are slightly different than in Alternatives 1 and 2. This is due to different transfers to and from the reserve funds. Table FP-W3C shows the annual surplus/deficits with no rate increases, which are carried forward into the reserve fund balances shown in Table FP-W3B.

Table FP-W3A

Projected Water Fund Revenue Requirements - Alternative 3 (Additional Debt Only)

City of Morgan Hill

Water Fund Expenses	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	174,446	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From)						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	350,000	350,000	350,000	350,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,156,800	707,537	730,937	755,037
Total - Operations & Transfers	6,680,888	8,580,365	6,747,400	6,432,937	6,636,837	6,848,737
less Misc. Non-Rate Revenue	(356,495)	(401,347)	(419,500)	(427,700)	(436,100)	(444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,327,900	\$6,005,237	\$6,200,737	\$6,404,037
Annual Change in Revenue Requirements		29.3%	-22.6%	-5.1%	3.3%	3.3%

a. From App. Table BP-W1, Water Operations - Summary of Budget Projections. Source of FY '01-02: Budget Expense Summary for Fund 650 Water, Apr. 19, 2001.

b. Projected using FY'01-02 budget and the inflation rates shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers", which are projected as \$0.

d. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

e. From "Transfers In" section of Table BP-S2, Projected Sewer Operations - Fund 640.

Table FP-W3C

Water Rate Increases - Alternative 3 (Additional Debt Only)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative			
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,327,900	\$6,005,237	\$6,200,737	\$6,404,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 5,973,000	\$ 6,092,000	\$ 6,214,000	\$ 6,338,000
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (354,900)	\$ 86,763	\$ 13,263	\$ (66,037)
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)
Rate Increase Alternative		0.0%	0.0%	0.0%	0.0%	0.0%
Cumulative Rate Increase		0.0%	0.0%	0.0%	0.0%	0.0%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		\$0	\$0	\$0	\$0	\$0
Effective July 1, 2003			\$0	\$0	\$0	\$0
Effective July 1, 2004				\$0	\$0	\$0
Effective July 1, 2005					\$0	\$0
Effective July 1, 2006						\$0
Subtotal - Revenue from Rate Increases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Rate Revenue	\$ 5,991,000	\$ 5,855,915	\$ 5,973,000	\$ 6,092,000	\$ 6,214,000	\$ 6,338,000
Annual Surplus/(Deficit) after Rate Increase	\$ (333,393)	(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)

a. From Table FP-W3A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W3B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W3B

Projected Reserve Contributions and Balances - Alternative 3 (Additional Debt Only)

City of Morgan Hill

		FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
		Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)							
<i>Fund Balance Without Rate Increases</i>							
Beginning Fund Balance		\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$934,492	\$1,062,105	\$1,118,383
Annual Surplus/(Deficit)		(\$333,393)	(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$35,942</u>	<u>\$40,850</u>	<u>\$43,015</u>	<u>\$42,094</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)		\$3,373,757	\$1,253,450	\$934,492	\$1,062,105	\$1,118,383	\$1,094,440
Minimum Target Ending Balance (25% of Oper. Budget)		\$1,670,000	\$2,145,000	\$1,687,000	\$1,608,000	\$1,659,000	\$1,712,000
Water Rate Stabilization Fund (652)							
Beginning Fund Balance		\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)	\$0	\$0	\$0	\$0	\$0
<i>Transfer In from (Out to) Operations (650)</i>		<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)							
Beginning Fund Balance	<i>g</i>	\$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$668,482	\$2,837,482	\$2,217,482
Interest Earnings		\$29,000	\$7,662	\$26,000	\$109,000	\$85,000	\$83,000
Use of Money & Property		\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Proceeds from New Revenue Bonds					\$2,000,000		
Repayment of New Revenue Bonds						(\$190,000)	(\$190,000)
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
<i>Transfer in from/(out to) Operations (650)</i> <i>e</i>		<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$350,000</u>	<u>\$350,000</u>	<u>\$350,000</u>	<u>\$350,000</u>
Ending Fund Balance		\$3,972,472	\$1,157,482	\$668,482	\$2,837,482	\$2,217,482	\$2,170,482
Target Ending Balance (Highest Annual CIP) <i>h</i>		\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances							
Total Reserves (Without Rate Increases)		\$8,185,218	\$3,282,765	\$2,561,807	\$4,948,420	\$4,478,698	\$4,505,755
Total Target Reserves (650, 652, 653)		\$4,370,000	\$4,890,000	\$4,478,000	\$4,447,000	\$4,547,000	\$4,751,000
Water Impact Fund (651)							
Beginning Fund Balance		\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i>	\$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Proceeds from New Revenue Bonds					\$1,500,000		
Repayment of New Revenue Bonds						(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
<i>Transfer In From (Out To) Operations (650)</i>		\$0	\$1,335,000	\$0	\$0	\$0	\$0
<i>Repayment of Transfer From Operations (650)</i>			\$0		(\$471,963)	(\$471,963)	(\$471,963)
<i>Well Construction Refund (One-time)</i>			\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) <i>e</i>		<u>(\$1,178,961)</u>	<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance		\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)				\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italic Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, 2/26/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

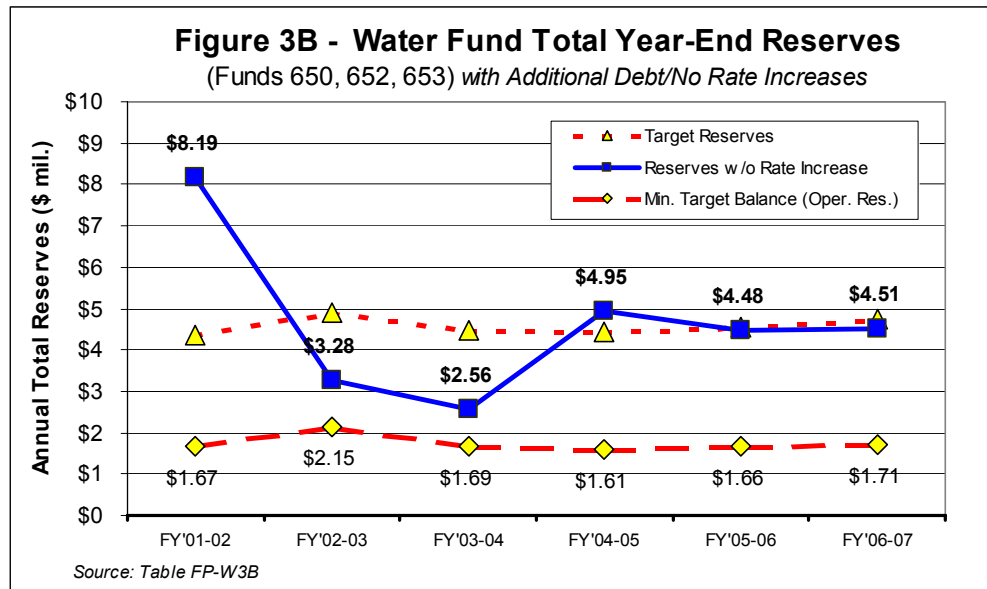
e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. The FY'01-02 beginning balance is for both funds.

Source: City Finance Dept records, 2/26/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



As shown in each of these three alternatives, the rate increases or additional debt are sufficient to maintain the year-end total reserve balances at or near the target level by the end of FY 06-07. However, each of them have their own benefits and difficulties, which the City will need to consider in developing more concrete plans for future funding of water revenue requirements.

APPENDIX A

Supporting Tables for Water Revenue Requirements

Table FP-W4

Summary of 5-Year CIP Water Projects

City of Morgan Hill

Project Name	Project Number	Water Financial Plan - Projected CIP Costs				
		FY'02-03	FY'03-04	FY'04-05	FY'05-06	FY'06-07
New Well Property/Construction	601,093	\$700,000	\$0	\$0	\$500,000	\$0
New Water Mains	603,093	120,000	120,000	120,000	120,000	120,000
Edmundson Main Distribution	619,002	80,000	625,000	0	0	0
Radio Telemetry	606,093	520,000	0	0	0	0
Rehabilitate Water Wells	608,093	0	190,000	0	190,000	0
Booster Pumps Rehabilitation	607,093	0	350,000	0	350,000	0
Polybutylene Service Replacement	615,095	0	325,000	0	325,000	0
Water Main Replacement	610,093	290,000	0	290,000	0	290,000
Total Projects Costs		\$1,710,000	\$1,610,000	\$410,000	\$1,485,000	\$410,000
Funding Sources						
317 - Redevelopment Agency		\$0	\$0	\$0	\$0	\$0
651 - Water Capital Exp. Fund		\$900,000	\$745,000	\$120,000	\$620,000	\$120,000
653 - Water Replacement Fund		\$810,000	\$865,000	\$290,000	\$865,000	\$290,000
Total Project Funding		\$1,710,000	\$1,610,000	\$410,000	\$1,485,000	\$410,000
Net Cost/(Surplus)		\$0	\$0	\$0	\$0	\$0

a. Source: Water System Master Plan - Final Administrative Draft Report, Table ES.2, Carollo Engineers, January 9, 2002.

b. Total costs of all intermediate-term projects allocated to current users is \$7,396,500. These projects are planned for FY 2005-10. The costs shown are assumed to be the average annual cost of those projects.

c. From Table FP-W3. Transfer from either Fund 651 or 653.

Table BP-W1

Water Operations - Summary of Budget Projections

City of Morgan Hill

Budget Category	FY'01-02		% Adjustment to '02-03	FY'02-03 Adopted	FY'02-03 Adjusted	Projected Revenue Requirements (b)			
	Est.	Actual (a)				FY'03-04	FY'04-05	FY'05-06	FY'06-07
Total Water Operations	\$ 3,836,459		110.17%	\$ 4,507,358	\$ 4,334,615	\$ 4,585,700	\$ 4,691,000	\$ 4,840,600	\$ 4,997,000
Total Meter Read/Rpr.	\$ 451,520		0.00%	\$ 616,878	\$ 616,878	\$ 635,300	\$ 653,900	\$ 673,400	\$ 693,300
Total Utility Billing	\$ 300,053		0.00%	\$ 347,753	\$ 347,753	\$ 358,000	\$ 368,600	\$ 379,700	\$ 390,900
Total Water Conservation	\$ 13,048		0.00%	\$ 11,320	\$ 11,320	\$ 11,600	\$ 11,900	\$ 12,200	\$ 12,500
Transfers	\$ 2,079,808			\$ 2,394,799	\$ 3,269,799	\$ 1,481,800	\$ 1,032,537	\$ 1,055,937	\$ 1,080,037
Total	\$ 6,680,888		110.17%	\$ 7,878,108	\$ 8,580,365	\$ 7,072,400	\$ 6,757,937	\$ 6,961,837	\$ 7,173,737
Plus Encumbrances	\$ 167,748		0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less Non-Rate Revenues	\$ (524,243)		0.00%	\$ (401,647)	\$ (401,347)	\$ (419,500)	\$ (427,700)	\$ (436,100)	\$ (444,700)
Total Enterprise Costs:	\$ 6,324,393		110.17%	\$ 7,476,461	\$ 8,179,018	\$ 6,652,900	\$ 6,330,237	\$ 6,525,737	\$ 6,729,037
% Annual Increase				18.2%		-11.0%	-4.8%	3.1%	3.1%

a. Source of FY'01-02: FY 2002/03 Budget Process, from Jack Dilles, April 23, 2002.

b. FY'02-03 are from FY 2002/03 Budget Process, from Jack Dilles, April 23, 2002. Following years are based on 02-03 Requested Budget and projected inflation rates.

Table CF-3

Growth-Related CIP Costs and Connection Fee Revenue

City of Morgan Hill

Future Growth	Projected					
	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07
Projected Number of DU's (a)	12,186	12,430	12,678	12,932	13,190	13,454
Growth Rate (b)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
No. of New DU's per Growth Rate	239	244	249	254	259	264
Projected Impact Fee Revenue						
Water Utility Impact Fee (c)			\$1,514	\$1,719	\$1,848	\$1,904
Water Utility Impact Fee Revenue (d)			\$376,000	\$436,000	\$478,000	\$502,000
Sewer Utility Impact Fee (c)			\$6,960	\$7,830	\$8,389	\$8,641
Sewer Utility Impact Fee Revenue (d)			\$1,730,000	\$1,985,000	\$2,170,000	\$2,279,000

a. Number of equivalent dwelling units based on City records (see Table SC-W1). EDUs include non-residential customers.

b. From Sewer System Master Plan - Final Administrative Draft Report, Table 2.2, Carollo Engineers, January 9, 2002.

c. Impact Fees adopted in City Resolution 5592, effective 1-15-03. Average of consecutive fiscal year fees is used to account for mid-year effective date.

	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07
Current and Adopted Water Impact Fees	\$1,154	\$1,411	\$1,616	\$1,821	\$1,876	\$1,932
Fiscal Year Average		\$1,283	\$1,514	\$1,719	\$1,848	\$1,904
Current and Adopted Sewer Impact Fees	\$5,416	\$6,525	\$7,395	\$8,265	\$8,513	\$8,768
Fiscal Year Average		\$5,971	\$6,960	\$7,830	\$8,389	\$8,641

FY 05-06 and 06-07 are projected at 3%/year inflation.

d. Number of new EDUs times the Impact Fees. Rounded to the nearest \$1,000.

Table BP-W2

Projected Water Operations - Fund 650 (a)

City of Morgan Hill

	FY'01-02	% Adjustment	FY'02-03	FY'02-03	Projected Revenue Requirements (b)				Inflation
	Est. Actual	to '02-03	Adopted	Adjusted	FY'03-04	FY'04-05	FY'05-06	FY'06-07	Rate Used
Water Operations -- Employee Services									
41100 Salaries-General	\$ 585,862	100.00%	\$ 738,787	\$ 738,787	\$ 761,000	\$ 783,800	\$ 807,300	\$ 831,500	3.0%
41100 Additional Utility Worker	\$ -	100.00%	\$ -	\$ -	\$ 56,700	\$ 58,400	\$ 60,200	\$ 62,000	3.0%
41320 Salaries-Other Payouts	\$ 18,915	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41490 Overtime-General	\$ 48,663	100.00%	\$ 57,000	\$ 57,000	\$ 58,700	\$ 60,500	\$ 62,300	\$ 64,200	3.0%
41799 Benefits	\$ 158,165	100.00%	\$ 192,169	\$ 192,169	\$ 197,900	\$ 203,800	\$ 209,900	\$ 216,200	3.0%
41800 Uniform	\$ 7,633	100.00%	\$ 9,535	\$ 9,535	\$ 9,800	\$ 10,100	\$ 10,400	\$ 10,700	3.0%
41900 Contract Labor	\$ 45,569	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
5% Vacancy Factor			\$ (46,500)	\$ (46,500)	\$ (47,900)	\$ (49,400)	\$ (50,900)	\$ (52,400)	
Subtotal	\$ 864,807	100.00%	\$ 950,991	\$ 950,991	\$ 1,036,200	\$ 1,067,200	\$ 1,099,200	\$ 1,132,200	
Water Operations -- Supplies & Services									
42205 Taxes - SCUWD Pump Tax	\$ 1,005,316	96.29%	\$ 1,158,840	\$ 1,115,847	\$ 1,217,000	\$ 1,279,000	\$ 1,343,000	\$ 1,411,000	=====>
42208 Electric	\$ 785,211	89.62%	\$ 960,750	\$ 861,000	\$ 860,100	\$ 885,900	\$ 912,500	\$ 939,900	3.0%
42214 Telephone	\$ 20,989	100.00%	\$ 25,000	\$ 25,000	\$ 25,800	\$ 26,600	\$ 27,400	\$ 28,200	3.0%
42228 Gasoline & Oil	\$ 12,057	100.00%	\$ 38,665	\$ 38,665	\$ 39,800	\$ 41,000	\$ 42,200	\$ 43,500	3.0%
42231 Contract Services	\$ 242,600	90.63%	\$ 320,130	\$ 290,130	\$ 298,800	\$ 307,800	\$ 317,000	\$ 326,500	3.0%
42240 Rentals-Outside	\$ 18,993	100.00%	\$ 6,000	\$ 6,000	\$ 6,200	\$ 6,400	\$ 6,600	\$ 6,800	3.0%
42242 Rents	\$ 29,855	100.00%	\$ 24,457	\$ 24,457	\$ 25,200	\$ 26,000	\$ 26,800	\$ 27,600	3.0%
42244 Stationary & Off. Supp.	\$ 4,315	100.00%	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42248 Other Supplies	\$ 95,158	100.00%	\$ 151,800	\$ 151,800	\$ 156,400	\$ 161,100	\$ 165,900	\$ 170,900	3.0%
42250 Advertising	\$ 522	100.00%	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	3.0%
42252 Photocopying	\$ -	100.00%	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	3.0%
42254 Postage & Freight	\$ 590	100.00%	\$ 3,200	\$ 3,200	\$ 3,300	\$ 3,400	\$ 3,500	\$ 3,600	3.0%
42257 Printing	\$ 2,379	100.00%	\$ 5,200	\$ 5,200	\$ 5,400	\$ 5,600	\$ 5,800	\$ 6,000	3.0%
42261 Auto Mileage	\$ -	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42265 Auto Allowance	\$ (33)	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42273 Wtr/Sewer Maint. Service	\$ 13,401	100.00%	\$ 81,500	\$ 81,500	\$ 83,900	\$ 86,400	\$ 89,000	\$ 91,700	3.0%
42281 Small Tools	\$ 4,253	100.00%	\$ 4,250	\$ 4,250	\$ 4,400	\$ 4,500	\$ 4,600	\$ 4,700	3.0%
42299 Other Expense	\$ 12,561	100.00%	\$ 20,000	\$ 20,000	\$ 20,600	\$ 21,200	\$ 21,800	\$ 22,500	3.0%
42408 Training & Education	\$ 11,776	100.00%	\$ 15,000	\$ 15,000	\$ 15,500	\$ 16,000	\$ 16,500	\$ 17,000	3.0%
42415 Conference & Meetings	\$ 2,763	100.00%	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42423 Membership & Dues	\$ 2,113	100.00%	\$ 2,700	\$ 2,700	\$ 2,800	\$ 2,900	\$ 3,000	\$ 3,100	3.0%
42435 Subscription & Pub.	\$ 783	100.00%	\$ 915	\$ 915	\$ 900	\$ 900	\$ 900	\$ 900	3.0%
42510 Maint.-Bldgs/Improve.	\$ -	100.00%	\$ 5,500	\$ 5,500	\$ 5,700	\$ 5,900	\$ 6,100	\$ 6,300	3.0%
42523 Maint.-Mach/Equipment	\$ 3,843	100.00%	\$ 9,000	\$ 9,000	\$ 9,300	\$ 9,600	\$ 9,900	\$ 10,200	3.0%
42526 Maint.-Auto/Trucks	\$ 20,409	100.00%	\$ 23,000	\$ 23,000	\$ 23,700	\$ 24,400	\$ 25,100	\$ 25,900	3.0%
42531 Maint.-Furn/Off Equip	\$ 360	100.00%	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
42536 Maint.-Other	\$ 641	100.00%	\$ 1,650	\$ 1,650	\$ 1,700	\$ 1,800	\$ 1,900	\$ 2,000	3.0%
42550 Fleet Replacement Charge	\$ 52,556	100.00%	\$ 72,763	\$ 72,763	\$ 74,900	\$ 77,100	\$ 79,400	\$ 81,800	3.0%
Subtotal	\$ 2,343,411	94.13%	\$ 2,940,720	\$ 2,767,977	\$ 2,892,000	\$ 3,004,300	\$ 3,119,900	\$ 3,241,300	
Water Operations -- Capital Outlay									
43825 Machinery/Equipment	\$ 54,773	100.00%	\$ 44,000	\$ 44,000	\$ 85,300	\$ 46,700	\$ 48,100	\$ 49,500	3.0%
43835 Furniture/Office Equip	\$ 5,876	100.00%	\$ 7,425	\$ 7,425	\$ 7,600	\$ 7,800	\$ 8,000	\$ 8,200	3.0%
43840 Computer Equipment	\$ 7,608	100.00%	\$ 6,865	\$ 6,865	\$ 7,100	\$ 7,300	\$ 7,500	\$ 7,700	3.0%
43845 Computer Software	\$ 5,503	100.00%	\$ 5,985	\$ 5,985	\$ 6,200	\$ 6,400	\$ 6,600	\$ 6,800	3.0%
Subtotal	\$ 73,760	100.00%	\$ 64,275	\$ 64,275	\$ 106,200	\$ 68,200	\$ 70,200	\$ 72,200	
Water Operations -- Debt Service									
44990 Principal	\$ 210,320	100.00%	\$ 210,320	\$ 210,320	\$ 210,300	\$ 210,300	\$ 210,300	\$ 210,300	
44991 Interest	\$ 337,720	100.00%	\$ 337,720	\$ 337,720	\$ 337,700	\$ 337,700	\$ 337,700	\$ 337,700	
44994-5 Lease/Service Payments	\$ 6,441	100.00%	\$ 3,332	\$ 3,332	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	
Subtotal	\$ 554,481	100.00%	\$ 551,372	\$ 551,372	\$ 551,300	\$ 551,300	\$ 551,300	\$ 551,300	
Water Operations - Internal Service & Transfers									
45000 Internal Service	\$ 264,808	100.00%	\$ 317,299	\$ 317,299	\$ 326,800	\$ 336,600	\$ 346,700	\$ 357,100	3.0%
Tran. Out - Street Maintenance	\$ 350,000	100.00%	\$ 400,000	\$ 400,000	\$ 412,000	\$ 424,400	\$ 437,100	\$ 450,200	3.0%
Tran. Out One-Time (651)	\$ -	100.00%	\$ 460,000	\$ 1,335,000	\$ -	\$ (471,963)	\$ (471,963)	\$ (471,963)	
Tran. Out (In) (652)	\$ -		\$ -	\$ -	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	
Tran. Out - General Fund	\$ 15,000	100.00%	\$ 17,500	\$ 17,500	\$ 18,000	\$ 18,500	\$ 19,100	\$ 19,700	3.0%
Tran. Out - Water Replac. (65)	\$ 1,450,000	100.00%	\$ 1,200,000	\$ 1,200,000	\$ 675,000	\$ 675,000	\$ 675,000	\$ 675,000	
49000 Subtotal - Transfers Out	\$ 1,815,000	100.00%	\$ 2,077,500	\$ 2,952,500	\$ 1,155,000	\$ 695,937	\$ 709,237	\$ 722,937	3.0%
Subtotal - Int. Ser. & Trans. Out	\$ 2,079,808	136.54%	\$ 2,394,799	\$ 3,269,799	\$ 1,481,800	\$ 1,032,537	\$ 1,055,937	\$ 1,080,037	
Total Water Operations	\$ 5,916,267	110.17%	\$ 6,902,157	\$ 7,604,414	\$ 6,067,500	\$ 5,723,537	\$ 5,896,537	\$ 6,077,037	

Table BP-W2 (cont.)

Projected Water Operations - Fund 650 (a)

City of Morgan Hill

METER READING/REPORTING**Meter Read/Rpr. -- Personnel**

41100 Salaries-General	\$ 176,670	\$ 166,260	\$ 166,260	\$ 171,200	\$ 176,300	\$ 181,600	\$ 187,000	3.0%
41320 Salaries-Other Payouts	\$ 2,805	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41490 Overtime-General	\$ 1,629	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	3.0%
41799 Benefits	\$ 47,214	\$ 45,768	\$ 45,768	\$ 47,100	\$ 48,500	\$ 50,000	\$ 51,500	3.0%
41800 Uniform	\$ 1,669	\$ 3,050	\$ 3,050	\$ 3,100	\$ 3,200	\$ 3,300	\$ 3,400	3.0%
Subtotal	\$ 229,987	\$ 216,278	\$ 216,278	\$ 222,600	\$ 229,200	\$ 236,100	\$ 243,100	

Meter Read/Rpr. -- Supplies & Services

42228 Gasoline & Oil	\$ 2,390	\$ 3,482	\$ 3,482	\$ 3,600	\$ 3,700	\$ 3,800	\$ 3,900	3.0%
42231 Contract Services	\$ 10,629	\$ 30,280	\$ 30,280	\$ 31,200	\$ 32,100	\$ 33,100	\$ 34,100	3.0%
42240-2 Rentals-Outside	\$ 697	\$ 746	\$ 746	\$ 800	\$ 800	\$ 800	\$ 800	3.0%
42244 Stationary & Off. Supp.	\$ 401	\$ 425	\$ 425	\$ 400	\$ 400	\$ 400	\$ 400	3.0%
42248 Other Supplies	\$ 20,165	\$ 30,700	\$ 30,700	\$ 31,600	\$ 32,500	\$ 33,500	\$ 34,500	3.0%
42252 Photocopying	\$ -	\$ 105	\$ 105	\$ 100	\$ 100	\$ 100	\$ 100	3.0%
42254 Postage & Freight	\$ 7	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	3.0%
42257 Printing	\$ -	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	3.0%
42281 Small Tools	\$ 1,750	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	3.0%
42408 Training & Education	\$ 802	\$ 1,510	\$ 1,510	\$ 1,600	\$ 1,600	\$ 1,600	\$ 1,600	3.0%
42523 Maint.-Mach/Equipment	\$ -	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
42526 Maint.-Auto/Trucks	\$ 7,337	\$ 7,720	\$ 7,720	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	3.0%
42531 Maint.-Furn/Off Equip	\$ 46	\$ 210	\$ 210	\$ 200	\$ 200	\$ 200	\$ 200	3.0%
42536 Maint.-Other	\$ 410	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
42550 Fleet Replacement Charge	\$ 2,453	\$ 2,382	\$ 2,382	\$ 2,500	\$ 2,600	\$ 2,700	\$ 2,800	3.0%
Subtotal	\$ 47,087	\$ 81,260	\$ 81,260	\$ 83,700	\$ 85,900	\$ 88,300	\$ 90,800	

Meter Read/Rpr. -- Capital Outlay

43825 Machinery/Equipment	\$ -	\$ 3,000	\$ 3,000	\$ 3,100	\$ 3,200	\$ 3,300	\$ 3,400	3.0%
43835 Furniture/Office Equip	\$ 344	\$ 1,425	\$ 1,425	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
43840 Computer Equipment	\$ 272	\$ 810	\$ 810	\$ 800	\$ 800	\$ 800	\$ 800	3.0%
43845 Computer Software	\$ 1,310	\$ 1,810	\$ 1,810	\$ 1,900	\$ 2,000	\$ 2,100	\$ 2,200	3.0%
43897 Meters	\$ 118,021	\$ 250,000	\$ 250,000	\$ 257,500	\$ 265,200	\$ 273,200	\$ 281,400	3.0%
Subtotal	\$ 119,947	\$ 257,045	\$ 257,045	\$ 264,800	\$ 272,700	\$ 280,900	\$ 289,300	

Debt Service

44991 Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
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Meter Read/Rpr. - Internal Service & Transfers

Subtotal	\$ 54,499	\$ 62,295	\$ 62,295	\$ 64,200	\$ 66,100	\$ 68,100	\$ 70,100	3.0%
Total Meter Read/Rpr	\$ 451,520	\$ 616,878	\$ 616,878	\$ 635,300	\$ 653,900	\$ 673,400	\$ 693,300	

UTILITY BILLING**Utility Billing -- Employee Services**

41100 Salaries-General	\$ 120,497	\$ 144,604	\$ 144,604	\$ 148,900	\$ 153,400	\$ 158,000	\$ 162,700	3.0%
41270 Salaries-Part-Time	\$ 12,604	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41320 Salaries-Other Payouts	\$ 1,648	\$ 2,200	\$ 2,200	\$ 2,300	\$ 2,400	\$ 2,500	\$ 2,600	3.0%
41490 Overtime-General	\$ 610	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
41799 Benefits	\$ 32,801	\$ 33,597	\$ 33,597	\$ 34,600	\$ 35,600	\$ 36,700	\$ 37,800	3.0%
41900 Contract Labor	\$ 8,985	\$ 5,000	\$ 5,000	\$ 5,200	\$ 5,400	\$ 5,600	\$ 5,800	3.0%
Subtotal	\$ 177,145	\$ 186,901	\$ 186,901	\$ 192,500	\$ 198,300	\$ 204,300	\$ 210,400	

Utility Billing -- Supplies & Services

42214 Telephone	\$ 2,351	\$ 3,230	\$ 3,230	\$ 3,300	\$ 3,400	\$ 3,500	\$ 3,600	3.0%
42231 Contract Services	\$ 14,219	\$ 36,316	\$ 36,316	\$ 37,400	\$ 38,500	\$ 39,700	\$ 40,900	3.0%
42244 Stationary & Off. Supp.	\$ 1,900	\$ 4,500	\$ 4,500	\$ 4,600	\$ 4,700	\$ 4,800	\$ 4,900	3.0%
42252 Photocopying	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42254 Postage & Freight	\$ 45,498	\$ 46,800	\$ 46,800	\$ 48,200	\$ 49,600	\$ 51,100	\$ 52,600	3.0%
42257 Printing	\$ 4,199	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42261 Auto Mileage	\$ (9)	\$ 235	\$ 235	\$ 200	\$ 200	\$ 200	\$ 200	3.0%
42408 Training & Education	\$ -	\$ 3,400	\$ 3,400	\$ 3,500	\$ 3,600	\$ 3,700	\$ 3,800	3.0%
42435 Subscription & Pub.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42531 Maint.-Furn/Off Equip	\$ 294	\$ 712	\$ 712	\$ 700	\$ 700	\$ 700	\$ 700	3.0%
Subtotal	\$ 68,462	\$ 99,193	\$ 99,193	\$ 102,000	\$ 104,900	\$ 108,000	\$ 111,100	

Utility Billing -- Capital Outlay

43835 Furniture/Office Equip	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
43840 Computer Equipment	\$ 2,430	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
43845 Computer Software	\$ 3,725	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Subtotal	\$ 6,155	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

Utility Billing -- Debt Service

Table BP-W2 (cont.)

Projected Water Operations - Fund 650 (a)
*City of Morgan Hill***Water Fund 650 Revenues (b)****Use of Money & Property**

Interest Income		----- Included in Table FP-W3 -----						3.0%
Rent & Concessions	\$ 12,000	\$ 8,000	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	\$ 9,000	3.0%
Subtotal	\$ 12,000	\$ 8,000	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	\$ 9,000	
Charges Current Services								
Administration Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Front Footage/Offsite	\$ 100,000	\$ 25,000	\$ 25,000	\$ 25,300	\$ 25,600	\$ 25,900	\$ 26,200	1.0%
Meter Install & Service	\$ 75,000	\$ 48,000	\$ 48,000	\$ 48,500	\$ 49,000	\$ 49,500	\$ 50,000	1.0%
Delinq. Water Turn Off/On	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Fire Hydrant Charge	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,200	\$ 20,400	\$ 20,600	\$ 20,800	1.0%
Subtotal	\$ 195,000	\$ 93,000	\$ 93,000	\$ 94,000	\$ 95,000	\$ 96,000	\$ 97,000	
Other Revenue								
Other Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Connection Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Misc. Reimbursement	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Reimb. of Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Reimb. of Expenses/FEMA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Surplus Sales	\$ -	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
Misc. Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Subtotal	\$ 10,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	
Charges Current Service								
Utility Account Set-up	\$ 22,400	\$ 29,500	\$ 29,500	\$ 29,800	\$ 30,100	\$ 30,400	\$ 30,700	1.0%
Annual Backflow Inspect	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Const. Inspect.-Backflow	\$ 6,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	1.0%
Utility Bill Delinq Chr.	\$ 12,000	\$ 15,000	\$ 15,000	\$ 15,200	\$ 15,400	\$ 15,600	\$ 15,800	1.0%
Delinquent Bill Charge	\$ 24,000	\$ 68,770	\$ 68,770	\$ 69,500	\$ 70,200	\$ 70,900	\$ 71,600	1.0%
Utility Service Call	\$ 2,000	\$ 8,200	\$ 8,200	\$ 8,300	\$ 8,400	\$ 8,500	\$ 8,600	1.0%
Chgs-Curr/Plans & Specs	\$ 300	\$ 300	\$ -	\$ 300	\$ 300	\$ 300	\$ 300	1.0%
Subtotal	\$ 66,700	\$ 125,770	\$ 125,470	\$ 127,100	\$ 128,400	\$ 129,700	\$ 131,000	
Transfer In								
Transfer/GF Admin.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Transfer-Sewer Ops.	\$ 240,543	\$ 173,877	\$ 173,877	\$ 189,200	\$ 194,900	\$ 200,700	\$ 206,700	3.0%
Subtotal	\$ 240,543	\$ 173,877	\$ 173,877	\$ 189,200	\$ 194,900	\$ 200,700	\$ 206,700	
Total Non-Rate Revenue	\$ 524,243	\$ 401,647	\$ 401,347	\$ 419,500	\$ 427,700	\$ 436,100	\$ 444,700	

a. Source of '01-02 subtotals: FY 2002/03 Budget Process, Jack Dilles, Apr 23, 2002. Details are estimated using previous '01-02 details not provided in this update.

b. FY'02-03 are from FY 2002/03 Budget Process, from Jack Dilles, April 23, 2002. Following years are based on '02-03 Requested Budget and projected inflation rates.

c. Transfers from Water Rate Stabilization Fund are not considered here. See Financial Plan Table FP-W3.

APPENDIX B

Supporting Tables for Sewer Revenue Requirements

Table BP-S1

Budget Projections - Sewer Operations (O&M Expense Detail)

City of Morgan Hill

		YTD	5-Year Financial Plan					Inflation/Escalation Factors			
Acct	Account Name	Expenses FY01-02	Adopted Budget FY02-03	Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07	Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07
EMPLOYEE SERVICES											
41100	Salaries-General	\$	681,889	\$ 702,300	\$ 723,400	\$ 745,100	\$ 767,500	3.0%	3.0%	3.0%	3.0%
41100	Additional Utility Worker		-	56,700	58,400	60,200	62,000	3.0%	3.0%	3.0%	3.0%
41320/330	Salaries-Other Payouts		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
41490	Overtime-General		20,000	20,600	21,200	21,800	22,500	3.0%	3.0%	3.0%	3.0%
41799	Benefits		175,861	181,100	186,500	192,100	197,900	3.0%	3.0%	3.0%	3.0%
41800	Uniform		9,770	10,100	10,400	10,700	11,000	3.0%	3.0%	3.0%	3.0%
41900	Contract Labor		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
Subtotal	Employee Services	\$ 794,628	\$ 887,520	\$ 970,800	\$ 999,900	\$ 1,029,900	\$ 1,060,900				
SUPPLIES & SERVICES											
42208	Electric/Natural Gas	\$	33,075	\$ 34,100	\$ 35,100	\$ 36,200	\$ 37,300	3.0%	3.0%	3.0%	3.0%
42214	Telephone		2,300	2,400	2,500	2,600	2,700	3.0%	3.0%	3.0%	3.0%
42228	Gasoline & oil		17,914	18,500	19,100	19,700	20,300	3.0%	3.0%	3.0%	3.0%
42231	Contract Services		148,175	152,600	157,200	161,900	166,800	3.0%	3.0%	3.0%	3.0%
42240	Rents-Outside		6,500	6,700	6,900	7,100	7,300	3.0%	3.0%	3.0%	3.0%
42242	Rent-Corp. Yard		23,192	23,900	24,600	25,300	26,100	3.0%	3.0%	3.0%	3.0%
42244	Stationery & Office Supplies		1,885	1,900	2,000	2,100	2,200	3.0%	3.0%	3.0%	3.0%
42248	Other Supplies		72,960	75,100	77,400	79,700	82,100	3.0%	3.0%	3.0%	3.0%
42250	Advertising		680	700	700	700	700	3.0%	3.0%	3.0%	3.0%
42252	Photocopying		200	200	200	200	200	3.0%	3.0%	3.0%	3.0%
42254	Postage & Freight		500	500	500	500	500	3.0%	3.0%	3.0%	3.0%
42257	Printing		750	800	800	800	800	3.0%	3.0%	3.0%	3.0%
42270	SCRWA		2,196,626	2,262,500	2,330,400	2,400,300	2,472,300	3.0%	3.0%	3.0%	3.0%
42273	Sewer Maintenance Service		71,875	74,000	76,200	78,500	80,900	3.0%	3.0%	3.0%	3.0%
42281	Small Tools		6,420	6,600	6,800	7,000	7,200	3.0%	3.0%	3.0%	3.0%
42299	Other Expense		475	500	500	500	500	3.0%	3.0%	3.0%	3.0%
42408	Training & Education		13,000	13,400	13,800	14,200	14,600	3.0%	3.0%	3.0%	3.0%
42415	Conference & Meetings		1,800	1,900	2,000	2,100	2,200	3.0%	3.0%	3.0%	3.0%
42423	Membership & Dues		1,000	1,000	1,000	1,000	1,000	3.0%	3.0%	3.0%	3.0%
42435	Subscriptions & Publications		350	400	400	400	400	3.0%	3.0%	3.0%	3.0%
42523	Maintenance-Machine/Equipment		7,500	7,700	7,900	8,100	8,300	3.0%	3.0%	3.0%	3.0%
42526	Maintenance-Auto & Trucks		44,000	45,300	46,700	48,100	49,500	3.0%	3.0%	3.0%	3.0%
42531	Maintenance-Furniture/Office Equip.		735	800	800	800	800	3.0%	3.0%	3.0%	3.0%
42536	Maintenance-Other		835	900	900	900	900	3.0%	3.0%	3.0%	3.0%
42550	Fleet Replacement Charge		48,939	50,400	51,900	53,500	55,100	3.0%	3.0%	3.0%	3.0%
Misc.	Depreciation & Other Expenses		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
Subtotal	Supplies & Services	\$ 2,536,052	\$ 2,701,686	\$ 2,782,800	\$ 2,866,300	\$ 2,952,200	\$ 3,040,700				
CAPITAL OUTLAY											
43825	Machinery/Equipment	\$	30,500	\$ 71,400	\$ 32,400	\$ 33,400	\$ 34,400	3.0%	3.0%	3.0%	3.0%
43835	Furniture/Office Equipment		7,425	7,600	7,800	8,000	8,200	3.0%	3.0%	3.0%	3.0%
43840	Computer Equipment		6,865	7,100	7,300	7,500	7,700	3.0%	3.0%	3.0%	3.0%
43845	Computer Software		4,935	5,100	5,300	5,500	5,700	3.0%	3.0%	3.0%	3.0%
Subtotal	Capital Outlay	\$ 45,567	\$ 49,725	\$ 91,200	\$ 52,800	\$ 54,400	\$ 56,000				
DEBT SERVICE (After FY01-02, based on Schedules and % Allocation below)											
44990	Principal	\$	655,000	\$ 1,350,038	\$ 1,311,563	\$ 1,270,450	\$ 1,227,038	0.0%	0.0%	0.0%	0.0%
44991	Interest	\$	1,403,954	\$ 600,000	\$ 640,000	\$ 680,000	\$ 725,000	0.0%	0.0%	0.0%	0.0%
44994	Lease Payments		-	-	-	-	-	0.0%	0.0%	0.0%	0.0%
44995	Service Fees		10,720	10,720	10,720	10,720	10,720	0.0%	0.0%	0.0%	0.0%
	Savings From Re-Funding		-	(120,070)	(119,737)	(118,024)	(119,412)				
Subtotal	Debt Service	\$ 1,637,946	\$ 2,069,674	\$ 1,840,688	\$ 1,842,546	\$ 1,843,146	\$ 1,843,346				
1992 Bond Issue (From Jack Dilles, 9/21/92)											
	Principal		\$1,385,598	\$1,350,038	\$1,311,563	\$1,270,450	\$1,227,038				
	Interest		\$635,000	\$600,000	\$640,000	\$680,000	\$725,000				

Table BP-S1 (Cont.)

Budget Projections - Sewer Operations (O&M Expense Detail)**City of Morgan Hill**

INTERNAL SERVICES

45000	General Fund Admin.	\$	211,522	\$	217,900	\$	224,400	\$	231,100	\$	238,000	3.0%	3.0%	3.0%	3.0%
45001	Personnel Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45002	Finance Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45003	General Liability Insurance		26,448		27,200		28,000		28,800		29,700	3.0%	3.0%	3.0%	3.0%
45004	Building Maintenance		28,972		29,800		30,700		31,600		32,500	3.0%	3.0%	3.0%	3.0%
45007	Legal Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45009	Information Systems		8,310		8,600		8,900		9,200		9,500	3.0%	3.0%	3.0%	3.0%
Subtotal Internal Services		\$	231,586	\$	275,252	\$	283,500	\$	292,000	\$	300,700				

TRANSFERS OUT

49201	Transfer-Street	\$	160,000	\$	200,000	\$	206,000	\$	212,200	\$	218,600	\$	225,200	3.0%	3.0%	3.0%	3.0%
49210	Transfer-General Fund		15,000		17,500		18,000		18,500		19,100		19,700	3.0%	3.0%	3.0%	3.0%
49250	Transfer-Equip Replace		-		-		-		-		-		-				
49262	Transfer-Sewer Replace		500,000		500,000		515,000		530,500		546,400		562,800	3.0%	3.0%	3.0%	3.0%
49271	Transfer-Water Operations		175,543		173,877		179,100		184,500		190,000		195,700	3.0%	3.0%	3.0%	3.0%
	Misc. Transfer-Misc Transfers		-		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
Subtotal Transfers		\$	850,543	\$	891,377	\$	918,100	\$	945,700	\$	974,100	\$	1,003,400				

Total \$ 6,096,322 \$ 6,875,234 \$ 6,887,088 \$ 6,999,246 \$ 7,154,446 \$ 7,314,046

Other (Non-Rate) Revenues

Interest Income	\$	301,002	\$	295,119	\$	304,000	\$	313,000	\$	322,000	\$	332,000	#	3.0%	3.0%	3.0%	3.0%
Administration Fee		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
J.P. Pretreatment		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Front Footage/Offsite		20,000		20,000		21,000		22,000		23,000		24,000	#	3.0%	3.0%	3.0%	3.0%
Other Revenue		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Connection Fees		5,000		5,000		5,000		5,000		5,000		5,000	#	3.0%	3.0%	3.0%	3.0%
Lift Station Charge		76,400		76,400		79,000		81,000		83,000		85,000	#	3.0%	3.0%	3.0%	3.0%
Reimb. of Expenses		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Misc. Reimbursements		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Utility Bill Delinq. Charge		15,000		12,500		13,000		13,000		13,000		13,000	#	3.0%	3.0%	3.0%	3.0%
Transfer In - Water Rate Stabil		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Subtotal-Other Revenues		\$	417,402	\$	409,019	\$	422,000	\$	434,000	\$	446,000	\$	459,000	#			
Sewer Service Charges				\$	5,389,650												

Table FP-S4

Summary of 5-Year CIP Sewer Projects**City of Morgan Hill**

Project Name		CIP No.	Sewer Financial Plan - Projected CIP Costs				
			FY'02-03	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Trunk Lines		308094	\$150,000	\$400,000	\$8,000,000	\$0	\$0
Sanitary Sewer Rehabilitation		302093	350,000	350,000	350,000	350,000	350,000
Sewer Plant Imp. Project		303093	3,853,000	2,622,000	485,000	1,518,000	8,386,000
Lift Station Improvements		304093	630,000	630,000	0	0	0
Lift Station Telemetry		305093	400,000	0	0	0	0
Upgrade Existing Pipelines		301093	440,000	350,000	350,000	350,000	350,000
Total Projects Costs			\$5,823,000	\$4,352,000	\$9,185,000	\$2,218,000	\$9,086,000
Funding Sources							
317 - Redevelopment Agency			\$0	\$0	\$0	\$0	\$0
641 - Sewer Capital Expansion Fund			\$4,003,000	\$3,022,000	\$485,000	\$1,518,000	\$8,386,000
Sewer Revenue Bonds			\$0	\$0	\$8,000,000	\$0	\$0
643 - Sewer Replacement Fund			\$1,820,000	\$1,330,000	\$700,000	\$700,000	\$700,000
Total Project Funding			\$5,823,000	\$4,352,000	\$9,185,000	\$2,218,000	\$9,086,000
Net Cost/(Surplus)			\$0	\$0	\$0	\$0	\$0



CITY COUNCIL STAFF REPORT

MEETING DATE: OCTOBER 23, 2002

Agenda Item # 8

Prepared By:

**Recreation &
Community Services
Manager**

Submitted By:

City Manager

KIWANIS CLUB HOLIDAY PARADE REQUEST TO WAIVE SPECIAL EVENT PERMIT FEE AND PROVIDE INKIND SUPPORT

RECOMMENDED ACTION(S): Provide direction to staff regarding the request to waive the special event processing fee of \$125; provide direction to staff on the request to have services provided by the City donated.

EXECUTIVE SUMMARY:

Council approved by resolution a processing fee for special event permit requests. The fee of \$125 was adopted by resolution and became effective on September 17, 2002. The processing fee is a partial recovery of staff resources required to process special event requests through the city. Representatives of the Morgan Hill Kiwanis Club is requesting that this fee be waived and that the City donate services in support of the annual Holiday Parade.

The Holiday Parade is an annual downtown event coordinated by the Kiwanis Club, which is a nonprofit service group. The amount they do charge go towards the expense of new decorations and promotion. Kiwanis reports that this event is not a fundraiser but a community service project for the club and does not raise additional funds.

Kiwanis club is also requesting that the City continue to provide inkind services for police and public works support of this event which include use of a flat bed trailer for the announcers stand, barricades, detour signs, cones and police officers at an approximate cost of \$3,000.

FISCAL IMPACT: The City would not recover the \$125 for processing the permit and the Police Department and Public Works Department have provided inkind support for this annual event at an estimated cost of \$3,000. As an alternative, the \$125 Special Event Permit application fee could be charged to Community Promotions, Account No. 010-42248-1220.



**CITY COUNCIL
STAFF REPORT
MEETING DATE: October 23, 2002**

**TITLE: COMMUNITY CENTER AND PLAYHOUSE
FACILITY OPERATING HOURS**

RECOMMENDED ACTIONS:

1. Authorize Staff to offer extended operating hours for the multi-purpose rooms at the Community Center.
2. Adopt a resolution establishing fees for extended operating hours at the Community Center.

EXECUTIVE SUMMARY: Operating hours for the Community and Cultural Center facilities were established to provide maximum use by patrons while mitigating possible noise impacts on neighboring residential areas and to ensure the City's ability to staff the facility. During various reviews in the planning stages of this facility, the need for noise mitigation was primarily targeted toward the use of the outdoor Amphitheater, which borders residential properties. The operating hours for the remainder of the campus were also modeled with noise mitigation in mind. Current operating hours are listed on Attachment A.

Now that marketing for the Community Center building has begun, the Recreation and Community Services Division is seeing a number of requests for reservations of the multi-purpose rooms for events that would extend later than our currently established hours. Specifically, potential customers are requesting events to extend until midnight (or later), including Sundays.

Because the Community Center building is located the farthest distance from neighboring residential areas, possible noise impacts would seem to be greatly reduced. However, experience may show that a possible noise impact might be associated with cars leaving the parking lot adjacent to the residents after a large event. Until it is known how many large events will request extended hours, it is difficult to gauge what the extent of any noise impacts may be. However, directing cars to exit the parking lot onto Dunne Ave and Depot Rd. may be one way to mitigate noise after events. Staff believes that hours for the multi-purpose rooms could be reasonably extended until midnight, with an additional hour for clean-up, without causing undue impact on the neighboring residential area. Special extended hours should also be established to 1:00 am on New Year's Eve. A chart of extended hours of operation is also listed on Attachment A. Certainly, should experience show that noise complaints are being routinely received regarding extended hour events, the City staff could simply reduce operating hours as necessary.

Offering extended hours would also impact City operating costs. City staff would almost always be required to work these extended hours on an overtime basis, not only to supervise clean-up and close the facility at a later hour, but also to report to work early the following morning to prepare the facility for other scheduled events. Staff is recommending that if offering extended hours is authorized, that the City Council adopt the attached resolution to charge a premium fee of 1.5 times the standard rental rates for those extended hours.

FISCAL IMPACT: Offering extended hours for events at the Community Center Building will increase the marketability and rental revenue of the facility by an unknown amount and will offset the extra cost of providing the facility and staff for these events.

Agenda Item # 9

Prepared By:

**Recreation and
Community Services
Manager**

Submitted By:

City Manager

**COMMUNITY AND CULTURAL CENTER
CURRENT AUTHORIZED OPERATING HOURS**

	Monday - Saturday	Sunday
Community Center Building:		
El Toro Room	7:00 am to 11:00 pm	8:00 am to 9:00 pm
Hiram Morgan Hill Room	7:00 am to 11:00 pm	8:00 am to 9:00 pm
Community Center Building: Meeting and Classrooms	7:00 am to 11:00 pm	8:00 am to 9:00 pm
Amphitheater	8:00 am to 9:00 pm	8:00 am to 9:00 pm
Playhouse	7:00 am to 11:00 pm	8:00 am to 9:00 pm

**COMMUNITY AND CULTURAL CENTER
PROPOSED OPERATING HOURS WITH EXTENDED HOURS INCLUDED**

	Monday - Saturday	Sunday
Community Center Building:		
El Toro Room	7:00 am to 11:00 pm	8:00 am to 9:00 pm
Hiram Morgan Hill Room	7:00 am to 11:00 pm	8:00 am to 9:00 pm
Extended Hours:	11:00 pm to 1:00 am*	9:00 pm to 1:00 am*
New Year's Eve	11:00 pm to 2:00 am*	9:00 pm to 2:00 am*
Community Center Building: Meeting and Classrooms	7:00 am to 11:00 pm	8:00 am to 9:00 pm
Amphitheater	8:00 am to 9:00 pm	8:00 am to 9:00 pm
Playhouse	7:00 am to 11:00 pm	8:00 am to 9:00 pm

- Events using extended hours must cease at midnight (or 1:00 am on New Years Eve) with an additional hour allocated for clean-up only.

RESOLUTION NO. 5619

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL ESTABLISHING FEES FOR USE OF THE MULTI-PURPOSE ROOMS OF THE COMMUNITY CENTER DURING EXTENDED HOURS OF OPERATION

WHEREAS, the City Council has previously adopted operating hours and fees for the use of various rooms and spaces within the Community and Cultural Center; and

WHEREAS, the City Council has authorized staff to offer extended hours of operation for the Hiram Morgan Hill and El Toro multi-purpose rooms of the Community Center building and that such hours are not expected to cause undue noise impacts on neighboring residential areas; and

WHEREAS, extended operating hours places extra workload on staff and will require them to work late hours on an overtime basis to ensure proper clean up and closure of the facility; and

WHEREAS, extended operating hours will also likely require staff to report to work early the next morning to prepare rooms for other uses; and

WHEREAS, the City Council may establish fees for special services regarding the use of City facilities;

NOW THEREFORE, BE IT RESOLVED that the City Council of the City of Morgan Hill establishes a fee for use of the Hiram Morgan Hill and the El Toro multi-purpose rooms of the Community Center building when rented during extended hours of operation equivalent to 1.5 times the standard use fees.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Special Meeting held on the 23rd day of October 2002, by the following vote.

AYES: **COUNCIL MEMBERS:**
NOES: **COUNCIL MEMBERS:**
ABSENT: **COUNCIL MEMBERS:**
ABSTAIN: **COUNCIL MEMBERS:**

🍷 CERTIFICATION 🍷

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5619 adopted by the City Council at the Special Meeting on October 23 ,2002

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk



CITY COUNCIL STAFF REPORT

MEETING DATE: October 23, 2002

Agenda Item # 10

Prepared By:

Planning Manager

Submitted By:

City Manager

REVIEW OF ZONING REGULATIONS FOR PARKING LOT USED CAR/TENT SALES

RECOMMENDED ACTION(S):

The Council should consider whether to ask the Planning Commission to consider amendments to the Municipal Code to establish new regulations regarding parking lot sales.

EXECUTIVE SUMMARY:

The City Council requested this item be placed on the agenda for discussion. Parking lot sales are regulated under Section 18.54.160.A of the Municipal Code. Such uses are limited seven days in any 180-day period and require a Temporary Use Permit (TUP), approved by the Community Development Director. The attached Municipal Code sections outline the process for approval of a Temporary Use Permit.

A Temporary Use Permit was approved recently for Hartzheim Dodge to conduct used car sales in the parking lot at the Tennant Station shopping center the weekend of October 4-6, 2002. This past week, the City issued another TUP for Hartzheim Dodge to conduct the same use at Tennant Station on October 25 through October 28. After conclusion of the used car sales on October 28, the maximum seven days for the use will have elapsed and the shopping center location will not be available for parking lot sales the next six months (180 days). Attached is a copy of the approval certificate with the conditions of the most recent TUP approval.

The two TUP's issued to Hartzheim Dodge are the only permits the City has approved specifically for used car sales. Other types of parking lots sales that have been approved include the sale of Christmas trees, garden supplies, spas and swimming pool equipment, etc. Such uses must be conducted in a manner so as not to impact adjacent businesses or occupy required parking spaces for those businesses. In most of our shopping centers, used car sales would not be possible because the activity would occupy required parking for the shopping center. Tennant Station is unique at this time because many of the buildings are empty providing a surplus of parking that can be used as a car sales lot. When the new Safeway store is constructed, this surplus parking will no longer be available.

FISCAL IMPACT: None.